CENTESIMUS ANNUS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

WASHINGTON, DC, JUNE 18, 1991

Printed for the use of the Committee on Small Business

Serial No. 102-27

U.S. GOVERNMENT PRINTING OFFICE

44-600 WASHINGTON : 1991

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-035629-6

HT21-37.

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CENTESIMUS ANNUS

TUESDAY, JUNE 18, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room 2359-A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Committee on Small Business will come to order.

This morning our committee is pleased to hold a hearing on Pope John Paul II's new social encyclical *Centesimus Annus*, "The Hundredth Year." The encyclical commemorates the 100th anniversary of the first social encyclical which was issued in 1891 by Pope Leo XIII and entitled *Rerum Novarum*, "Of New Things."

The new papal letter has generated a great deal of comment and discussion worldwide, not as a religious document in the sectarian sense of the word, but as a document which examines the entire range of economic systems from the viewpoint and perspective of fundamental human social values. As the recent U.S. Bishops' Pastoral letter on the U.S. economy, states, "The dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured." In short, the economy exists to serve people, not the other way around, a sentiment with which I am in wholehearted agreement.

Most committees of the Congress, including this committee, are normally concerned only with the day-to-day nuts and bolts of budget deficits, trade balances, unemployment statistics, capital availability, stock market prices, interest rates, and the whole range of practical everyday economics. So, it is very good, and I think necessary, every once in a while to step back from the trees of these everyday concerns to examine the forest—the philosophic, moral, and social policy assumptions which underlie the West's economic systems and those which underlie systems in other areas of the world.

This is particularly true today when American businesses must increasingly deal with a very rapidly evolving world economy which over the next decade or two may alter economic institutions worldwide on a basis more profound than all that has happened in the last 100 years.

The importance of economic and social theory should not be underestimated. Pope Leo's 1891 encyclical, for example, had an enormous influence on 20th Century economic and social policy. He called for the legalization of labor unions and the recognition of the

right to strike. He called for a system of social security, worker compensation, and unemployment assistance. He called for wage and hour laws and child labor laws. He also wrote a scathing analysis of socialism and resolutely defended the institution of private property at a time when socialism and Marxism were only intellectual fancies. He set forth his views in the context of centuries of Judaeo-Christian beliefs and values. His encyclicals soon became the philosophy of action for the new Christian Democratic parties of Western Europe and Latin America. He anticipated by 40 years the program of Franklin Roosevelt's New Deal.

It remains to be seen whether the new social encyclical will have the same impact over the next 100 years. But as Harvard University acknowledged in handing him an honorary doctorate prior to his election as Pope, John Paul II is a world class social philosopher in his own right. His views will be carefully studied throughout the world. His principled endorsement of the free enterprise system as best suited to the ideals of human liberty underscores American values and will be especially important in Central and Eastern Europe and in Latin America as Nations in these areas plot their way in the post-Marxist world order.

So, it is well to take a little time to make ourselves aware and to help make America's business community aware of some of the currents now shaping the world's economic future. It is hoped that today's hearing, at least in some part, may assist in this effort.

To testify on the encyclical, we have the Most Reverend James Malone, chairman of the Domestic Policy Committee of the U.S. Catholic Conference; Mr. Michael Novak, the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute; and John Steinbruner, the director of Foreign Policy Studies of the Brookings Institution.

[Chairman LaFalce's statement may be found in the appendix.]

Chairman LAFALCE. We will hear first from Bishop Malone, but before we begin, as a personal note, I remember my days at Canisius High School in Buffalo, New York, when I entered my first oratorical contest. The subject matter was *Rerum Novarum* and *Quadragesimo Anno*. I am going to give a tough time to the stenographer here, but I have had an abiding interest in these encyclicals ever since, and in all the papal encyclicals dealing with social and economic policy, and so often discerning their message is difficult.

This weekend I was reading the June 24th edition of The New Republic. I enjoy reading all of The New Republic, but especially that section that deals with newspaper headlines. In a section on page 11 titled "Mutatus Mutandis" they have different headlines all dated May 3. The Chicago Tribune, "Pope offers qualified praise of capitalism." From the Chicago Sun Times, "Pope assails capitalist evils." From the Washington Times, "Free market gets Pope's blessing." From the same paper, the Washington Times, on the same day, "Pope warns against Godless capitalism." So, it depends upon your perspective.

The fact of the matter is, all those headlines are correct, but all of them are incomplete, as headlines usually are. To get the complete scoop, we have these three distinguished witnesses today.

I was admonished by my Irish Catholic friend on my right that I have been trying to make an Italian out of Bishop Malone by call-

ing him Maloni. But you cannot blame Congressman LaFalce for doing that, but since I am surrounded by Irish Catholics, Patricia Hennessey and Donald Terry, et cetera, I had better go to Malone.

Bishop, you are next.

TESTIMONY OF MOST REVEREND JAMES W. MALONE, BISHOP OF YOUNGSTOWN, AND CHAIRMAN, DOMESTIC POLICY COMMITTEE, U.S. CATHOLIC CONFERENCE

Bishop MALONE. Thank you very much, Mr. LaFalce.

On that point of the pronunciation of my name, I learned a long time ago, since I frequently go to Rome, that I am accepted much——

Chairman LAFALCE. I want you to know we are going to regain the papacy.

Bishop MALONE. I am accepted much better in that holy city if I introduce myself as Monsignore Maloni.

Chairman LAFALCE. I just want to start a trend in that direction, that is all.

Bishop MALONE. Mr. Chairman, I thank you for the opportunity to offer some reflections and speak about the challenges of the most recent encyclical of our Holy Father.

I appreciated very much your adroit introduction of the topic, particularly the quotation from the periodical that recites the different responses that the encyclical has received.

As a former president of the U.S. Bishops' Conference, and as its current chairman of its Domestic Policy Committee, I am pleased that a committee of the U.S. Congress has chosen to examine this encyclical's themes and values. I have a written statement which I have submitted for the record, and I want to make a summary statement at this time.

Chairman LAFALCE. We will include the entirety of your remarks in the record, so you may feel free to make a summary verbal statement.

Bishop MALONE. All right. Thank you.

Let me begin by speaking somewhat of the elements of the encyclical. For Roman Catholics, an encyclical is a religious teaching of the highest order. For other readers, the encyclical is a statement that merits discussion because of the important topics it addresses, the fundamental questions it poses, and the vital challenges it raises.

This encyclical, the Latin title being *Centesimus Annus*, the 100th year.

Chairman LAFALCE. My Canisius Jesuits would not have been pleased at my pronunciation with that, but it has been a long time.

I was just reading an article in this morning's Buffalo News about the value of Latin. The Latin courses are now all offered in the public school system, and you go to the Jesuit institutions, and they do not offer Latin there. Maybe they just were not pleased at the products they turned out and their pronunciation.

[Laughter.]

Bishop MALONE. Well, it is rare that I have an opportunity to show my skills, so I welcome this forum.

The encyclical has received a remarkable response so far. Its sweeping moral analysis of the economic and global changes of our time has drawn considerable coverage and commentary, and your opening remarks illustrated that.

The Pope, taking the 100-year old encyclical, *Rerum Novarum*, as his starting point, and the dramatic changes in contemporary life as an historic turning point, he affirms and advances traditional teaching on work and worker rights on morality in markets and on global justice and peace.

This encyclical offers no simple answers but rather profound challenges. Its message resists easy ideological or political categorization. Rather, it challenges all of us, liberal and conservative, east and west, rich and poor, tc shape economic life and global change which enhance the life, dignity, and rights of the human person.

Let me speak next of the market economics and morality. The theme of the encyclical that has drawn the most attention in the United States is its treatment of market economics and morality. Here the Pope explicitly acknowledges the positive aspects of the modern business economy and its basis in human freedom. He says, quote, "It would appear that on the level of individual nations and of international relations, the free market is the most efficient instrument for utilizing resources and effectively responding to needs. . . . But there are many human needs which find no place in the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not to allow those burdened by such needs to perish."

In the United States, we experience both aspects of this important insight—the strength, productivity—productivity and creativity of a power market economy, and the reality that some essential needs are simply not met through the market. Our economy has produced a standard of living that is the envy of the world, and yet, we are still haunted by poverty, hunger, and homelessness in our midst. We have the finest health care in the world and 37 million Americans lack access to it. We have high rates of home ownership, but the market cannot provide decent housing for many poor families.

Myself, as a bishop of Youngstown, Ohio, I have had some personal experience with the "human inadequacies of capitalism." We experience the strengths of our system, and we know in our hearts that it still leaves too many behind.

The Pope, while emphasizing "secure advantages" of market economics, points to its limits and warns against "an idolatry of the market." With particular reference to Eastern Europe, the Pope describes an alternative society, quote, "A free work of enterprise and of participation, not directed against the market, but one that demands that the market be appropriately controlled by forces of society in the State to guarantee that the basic needs of the whole society are satisfied." That is the end of his quotation.

In fashioning a society of free work, enterprise, and participation, small business, a concern of this committee, is clearly vital. Small business provides much of the employment, vitality, and creativity in our own economy, and the encyclical offers some values that are relevant to the role of this committee.

The Pope suggests a measure of an enterprise is not simply its economic value and fiscal strength, but also its human impact, the work it provides, the needs it meets, the service it renders, and how small business contributes to realizing the dignity of the people involved and the common good of the broader society.

In a rich, and I would say complicated, paragraph, the Pope asks, "Given the clear failure of communism, should capitalism be the goal for nations?" His response is, "If capitalism means an economic system that recognizes the positive role of business, the market, private property, and free human creativity, then the answer is yes. But if capitalism means a system where economic freedom is not circumscribed by a strong juridical framework which places economic freedom at the service of full human freedom, which recognizes the ethical and religious aspects of this freedom, then the answer is no."

Our challenge is to ensure that this moral and juridical framework is in place. The encyclical defends the positive value of the market and of enterprise, private ownership, and profit as they contribute to human freedom, promote useful work, inherit the dignity of others, and contribute to the good of the whole of society. But this support is qualified. It comes with a moral criterion. Every aspect of economic life is measured by how it touches the human person. In our tradition, the economy exists to serve the human person, not the other way around.

Let me speak for a moment to the aspect of the responsibilities and limitations of Government in the light of the encyclical.

A second major emphasis of the encyclical is the role of Government, both its duties and its limitations. According to the encyclical, the State has the duty of watching over the common good.

The encyclical calls for Government to help protect the worker from the nightmare of unemployment, to ensure adequate and decent wage levels and working conditions, to provide for the defense and preservation of common good, such as the natural and human environment, which cannot be safeguarded simply by market forces.

The Pope's specific reference to the need for adequate unemployment insurance underscores the U.S. Catholic bishops' recent call to reform our Federal/State system which provides benefits now to less than 40 percent of people who are out of work.

The State has a special responsibility to the poor and the weak. As the Pope says, quote, "The more that individuals are defenseless within a given society, the more they require the care and concern of others, and, in particular, the intervention of governmental authority."

The Pope also emphasizes the support for family life, saying, "It is urgent, therefore, to promote not only family policies, but also those social policies which have the family as the principal object; policies which assist the family by providing adequate resources and efficient means of support both for bringing up children and for looking after the elderly."

As the chairman may know, the U.S. Catholic bishops have called for enactment of such profamily policies. Specifically, for the last 7 years, we have supported the Family and Medical Leave Act which is once again before this Congress. This year, I have already

testified before two congressional committees to point out the Family and Medical Leave Act is essential to protect human rights and human dignity.

The encyclical affirms the role of the State and, at the same time, limits it. This is a quote. "Another task for the State is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the State, but to individuals, and to the various groups and associations which make up society." The quote continues. "The State has a duty to sustain business activities by creating conditions which will ensure job opportunities by stimulating those activities where they are lacking and by supporting them in moments of crisis."

In reaffirming in this way the principle of subsidiarity, the Pope warns against the social assistance State which leads to the "loss of human energies and to an inordinate increase of public agencies which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending."

From our own experience, we know that the State cannot and should not replace family, community, and private structures. Catholic schools, Catholic charities, religious hospitals, and community organizations are a demonstration of our active commitment to a healthy pluralistic society. But we also know that these and other efforts cannot substitute for wise and just public policy and for effective governmental action to protect the rights of the poor and the victims of injustice. This balanced approach to the role of the State will disappoint those who would reject the legitimate and necessary role of Government or neglect the importance of the private involuntary sectors.

Mr. Chairman, in your position, you know better than I the difficulty of pursuing the common good in the midst of many competing interests; the challenge of protecting the poor who lack access and resources of more powerful groups.

The key test for Government is not how the powerful do, but how the powerless fare.

Turning your attention to some key questions in the encyclical—an encyclical speaks in broad outlines, but an encyclical can offer some values and directions that can help shape the debate and decisions for our Nation and for others and thus result in the specifics of legislation.

While there are many questions that could be discussed, let me suggest several that may be relevant.

The question is, how can we use the efficiency, strength, and creativity of this market economy to help ensure and enhance the dignity and rights of all Americans, especially the poor, especially the jobless, and those who do not now share in this strength and prosperity?

The question is, how can we best encourage, direct, and complement the workings or our market economy in ways that effectively respond to harsh economic realities that still haunt our Nation—20 percent of our children growing up poor, 37 million Americans without adequate health care—the continuing hunger and homelessness in our midst?

The question is, how do we develop the will and the ways more effectively to reach out in both charity and justice to address the global reality of millions upon millions living, and too often dying, without dignity, opportunity, or hope because of global poverty, hunger, and economic injustice?

The question is, how does our Nation move from strong talk about family values to creative and effective action to support families in responsibly caring for children and overcoming the economic social and moral forces which too often undermine families?

How can our tax code, work place policies, private institutions, and public programs support and not undermine families, especially poor families?

The question is, in a time of limited resources and many competing priorities, how can we work together—business and labor, private and public sectors, religious and community groups—to put the needs of the poor and the vulnerable first, seeking to provide needed opportunity, respect human dignity, and meet basic needs?

Let me conclude. This encyclical has drawn much interest because of who John Paul II is, for whom he speaks, and the dramatic changes he addresses. My hope is that this encyclical will contribute to a broad and sustained dialogue across economic, ideological, and political lines. A dialogue on the moral dimensions and human consequences of economic life and global change.

I hope we can find significant common ground and common purpose in recognizing both the strength of market economies and the work yet to be done to realize our national dream of liberty and justice for all, especially for those who have not yet found a decent place in our economic life.

My fear is that the encyclical might well be selectively read and used, and that its profound challenges will get lost in an effort to renew some old arguments. Its balance and complexity should be protected lest it be undermined by headlines and slogans. This would be unfortunate, since there is both affirmation and challenge for all of us in this powerful statement, namely, for entrepreneurs and business people who will find their important contributions recognized and welcomed. They will also find new challenges to shape and measure their efforts by moral categories, human dignity, and common good among others.

This statement brings together working people and their unions, their vocations and roles being reaffirmed and strongly supported, and they are called to work for greater justice and participation with new urgency and creativity.

Conservatives and liberals—for conservatives, there is the affirmation of the market and the responsibility to address needs not met by the market. For liberals, there is the passionate priority for the poor and the warnings about bureaucratic excesses of some responses.

For public officials, your responsibility to safeguard human rights, protect the weak, and pursue the common good are laid out with new urgency, but the dangers of bureaucratization and the call to respect and enhance family life and community institutions, these are clear as well.

The church, its social teachings, have been strongly reaffirmed and advanced, but the challenge remains to move from words to action.

As Pope John Paul II says, "We run the risk of seeing the collapse of communism as a one-sided victory for our economic system. As a result, we can fail to make the necessary corrections in our economic life." Now is not the time for gloating but for serious dialogue and action on how best to use our economic strength and moral principles to shape our national life to better protect the life, liberty, and freedom of all God's children.

I hope today's hearing and these reflections will contribute to this important task. I thank you.

Chairman LAFALCE. I thank you very much for that excellent presentation.

[Bishop Malone's statement may be found in the appendix.]

Chairman LAFALCE. Our next witness will be Mr. Michael Novak. Mr. Novak, we will include the entirety of your remarks in the record.

STATEMENT OF MICHAEL NOVAK, GEORGE FREDERICK JEWETT CHAIR IN RELIGION AND PUBLIC POLICY, THE AMERICAN ENTERPRISE INSTITUTE

Mr. NOVAK. Thanks for your invitation.

The Committee on Small Business is especially to be praised for considering this encyclical because in the long history of the Catholic Church no doctrine is so strong or so full on praise for the virtues of business, particularly its insight into the nature of the virtue of enterprise.

Chairman LAFALCE. Could you bring the microphone a bit closer?

Mr. NOVAK. Therefore, I think, insofar as it is read and preached, it is going to have a dramatic effect on the morale of business men and women around America, the vast majority of whom are in small businesses. It is a terrible mistake to think that the Fortune 500 or the Forbes 500 represent the primary locus of American business life. They do not. They employ about 14 million persons. About three times that many work in small businesses, at the very least.

So, in any case, I am delighted to appear before this particular committee. I am also very happy to appear before Bishop Malone and members of the Bishops' Conference, because they gave considerable leadership in raising the economic question some years ago. In addition to that, they did it in a most impressive way by a very open method in which over a period of 3 years they listened to and invited comment, objection, argument, and they embodied a great deal of that in their final document, so that it was a very rich document, and I think a much larger document in its final draft than it was in its beginning. It was a truly quite revolutionary way for the world of bishops to begin.

Chairman LAFALCE. It was also somewhat shorter.

Mr. Novak. But it really set a new mark for the way the church, as a community, should proceed, and I think a great deal of credit should be put on the record in that regard.

I would like to make a few summary comments about this encyclical because I think too many people are reading in the light of past argument. It is, in fact, a remarkably original piece of work. The Pope himself is a philosopher and has taught social philosophy for a very long time. If you follow his works from the very beginning right through to his encyclical, you'll see a thread of consistency running through it. His great work is called "The Acting Person," a work in phenomenology, a kind of philosophical method in which you stand back to look, blocking other theories out of your mind in order to address the concrete phenomenon.

What from the very beginning struck Karol Wojtyla, then a philosophy professor, not yet a bishop, about the human being was the capacity of the human being to originate action, to start things that have never been started before; to imagine things, to dream things, and then to execute them, and to introduce new things into history.

When he became Pope, in *Laborem Exercens*, he introduced the theme of creation theology. He noted, as opposed to the Marxist interpretation of work, that work is not just about creating things. It is not just materialistic activity.

In work the creative subjectivity of the person is also engaged. A person puts a part of himself or herself into the work. As a Polish bishop, Wojtyla had observed with Father Tischner, a Polish priest who writes on these matters, how depressing it was for workers to go through the smoke, and steam, and heat of a steel mill and watch the product of their work rust in the yard outside because it was of such inferior quality that nobody wanted it. It was as though they themselves were rusting.

Chairman LAFALCE. After the Pope's encyclical *Laborem Exercens*, I was moved to do a paper on the theology of work.

Mr. NOVAK. We have a magazine that might be interested in publishing that.

But in any case, this notion that at the heart of human activity lies creativity—each woman, each man, is made in the image of God, that is, to be a creator—has been a persistent theme in the Pope's work. He gradually came to apply that to economic systems. It is as if he were asking himself, looking around at the real existing systems in the world, there is socialism, there is capitalism, there are the Third World economies, precapitalist, usually State directed; which one of these should the church recommend and which one of these best releases the creative capacities of individual women and men working together, because almost all business activity is by its nature cooperative activity.

Now, this line of thought—this will be my second comment—is remarkably similar to the fundamental American idea. *Centesimus Annus*, I would argue, is the best presentation of the way Americans think about their system that has ever been written by any church authority of any church and, indeed, by a great many philosophers besides. The Pope argues throughout that there is more in play than economics alone. There is also required a strong political framework, limited Government, protecting the fundamental rights of human beings. This is what was achieved in our constitution.

The heart of the economic order is not markets, and it is not private property. Those are important, but they do not make capitalism. There were private property and markets as long ago as Jerusalem in the Bible, and that was not a capitalist civilization.

In paragraph 32, the Pope states a tremendously important truth. Besides the Earth, man's principal resource is man himself. His intelligence made in the image of God enables him to discover the Earth's productive potential and the many different ways in which human needs can be satisfied. It is his disciplined work, in close collaboration with others, that makes possible the creation of evermore extensive working communities which can be relied upon to transform man's natural and human environments.

The whole text is a beautiful one. It emphasizes again the theme of the creative capacity of the human person. That insight has great economic ramifications, as the Pope remarks at the end of that section, where he is talking about the modern business economy.

At the end he makes an important historical point that Catholic theory has not made before. At one time, the decisive factor of production was the land. Later it was capital, understood as the total complex of the instruments of production. Today, a decisive faction is increasingly man himself, that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organization, as well as his ability to perceive the needs of others and to satisfy them. Therefore, you need the market.

This is a vision of something new in the economy. It is not Marxist, and it is not the traditional land-based economy. I do not think you will find it articulated before this text in anything like this clarity.

In the middle of the Civil War, with all that was on his mind, Abraham Lincoln insisted on extending the Homestead Act and the Land Grant College Act. In every new territory, an institution of intellect would be opened up on the very basis that the Pope sees here, that the cause of the wealth of a Nation is human capital, man himself, his scientific knowledge. If you open up the free territories on this principle, they will be free, and they will be prosperous.

Lincoln said that one of the great moments in the history of liberty—the fourth most important—was the Patent and Copyright Act of Article One, Section 8, of the U.S. Constitution, because it recognized in law intellectual property. The most important form of property is not land, not the means of production; it is the idea, the creative idea.

On this basis was legalized the whole enterprise of technological advance, the whole possibility of technological transfer to other nations. This revolutionized the world, as Lincoln perfectly well saw.

I believe the Pope is now standing on that same ground. He sees the importance of human capital. If you read the encyclical carefully with that in mind, you will see how at the end he turns his attention to culture. It is not enough to worry about the market, and private property, and economic organization alone. Nor is it enough to worry about the legal framework, the Constitution, the limited government, the protection of rights, even the welfare systems that will be necessary for the helpful and the vulnerable. One

must also be concerned about what happens to the culture as a whole, because there are transmitted the skills—simple arithmetic, manual skills, habits of cooperation, habits of invention—on which an economy depends.

Why are we so worried about education today? It is our culture that is going bad. Our culture is not doing its job. It is failing both the economy and the political system. As one can see from this encyclical, the great economic debate, and the great political debate of the bloody 20th Century have been resolved, at least in the Pope's mind. Democracy, for all its faults, protects human rights better than any other form of government. That argument is over. It was not so clear before World War I and World War II. But democracy has triumphed.

Second, it was not so clear whether socialism or the traditional economy were preferable to a new capitalism. However, the new capitalism proved to be the superior economic system for meeting human needs and achieving the common good. That is now clear.

But what is not at all clear is how we will live in a free society. Granted political liberty, granted economic liberty, what will we do with what we have?

Here, I think Bishop Malone is quite right. We have a lot to examine in ourselves about how we are doing it, and this is what the Pope is calling us to.

I have always thought the seal of the United States represented us very well. The framers went through seven drafts of this seal so we know they thought about it a great deal. You can find it on the back of the dollar bill. Under it, if we may introduce Latin again, they put a little motto—they had a different motto for the first six drafts and in the last draft they inserted the present motto: "*Novus ordo seclorum*," the new order of the ages. They knew they were developing something new, and unlike Great Britain, or France, or anyplace else, they wanted that originality noted. Federalist 37, affirms "The novelty of the undertaking immediately strikes us."

Above the motto they drew a picture of what that ordo is, and I would interpret it in this way. It is in the form of a pyramid. They wanted some identification with the ancient people of Israel who went out from Egypt seeking the Promised Land and wandered in the desert. So, they imagined most Americans coming to this virtually empty continent seeking a new city on the hill, a promised land.

But the pyramid also gave him a way of suggesting the novus ordo itself, the structure of the order. At the bottom, imagine limited government. The framework is crucial. Unless you have the juridical framework, the rest will not work.

Even in Eastern Europe today, they are discovering that until they get laws of private property, laws of contract, and other sorts of laws, they cannot have a free market. It will not work. Nothing can be done.

Chairman LAFALCE. How about in Mexico?

Mr. NOVAK. Mexico is the same. In Mexico, it is exceedingly difficult to get secure claim of private property. People have confiscated on others' land immemorially. It is not secure. You could go through the laws of Mexico, which do not work, and you can see why there is this great problem, but until you get the law straight,

it is very hard for people to have understandable expectations and make long-range investments.

But then you have to leave the economy free. You cannot manage it. It has got to be bound to the law. There, as it were, is the base of the pyramid. Political economy.

But above it all, they deliberately left the pyramid uncompleted to show that the final values are transcendent values, and they put the eye of God there, or the eye of conscience, if you are not a believer. Liberty and justice will never be achieved. We will always be under their judgment, no matter how rich or how powerful we are.

Chairman LAFALCE. I find this fascinating. If you have any text which explains this, I would love to read it.

Mr. NOVAK. Well, I have written on this subject a number of times. The State Department has an official history of the seal, and much of the immediate symbology is interpreted in it. The more or less philosophical interpretation of the three systems, however, you will not find spelled out there. You will find it implicit in legislation for example, when it says "Congress shall make no law regarding religion or the press." Congress is one part of the system, but Congress is not above the cultural moral part.

To conclude my remarks, I should like to summarize a few things that the Pope has done.

First, the emphasis on the human mind is the chief form of capital. Second, the emphasis on the right to personal economic initiative is a right also guaranteed in the United States, a deeply cherished right. People have the right to economic initiative without Government permission, as is always necessary in Britain, in Latin America, or elsewhere.

Third, the Pope develops the virtues that are part of enterprise. Usually, in land-based economies, enterprise and commerce were looked upon as something vulgar, petty, mean, filthy. To see small business treated with respect is an aspect of Christian virtue, as an expression of the very creativity of God, is a very important preaching. I dare say not many people have heard sermons encouraging them in their economic activities in quite this way.

Fourth, in section 48 the Pope discusses the way in which we ought to be treating the poor in advanced society. It gives credit for the fact that after World War II, particularly, the new governments did turn to the poor, not just for those who were able and were willing to work in markets, but also for the poor. But the Pope is concerned about the system we have set up here and in Europe. The welfare systems that we have set up are damaging the poor as much as helping. The welfare systems are making the poor dependent. He does not mention this in the text, but I think it lies behind the text because the problem is rife in Europe, too. There is an extraordinary outbreak of illegitimacy. In the United States, the figures just released for 1988 show over a million children born out of wedlock according to the last reporting. That never happened before, even when people were much poorer than they are today. It is happening in even greater numbers, in greater proportion, in Sweden and elsewhere. So, something is going away in the socialist state system that needs attention. The Pope attributed it to setting up big bureaucracies so expensive that they leave out the ordinary

human character, the ordinary human creative subjectivity of the people involved.

He asked us to consider methods which would help the poor in a better way than we are now doing it.

I think there is a terrific agenda behind this letter. The Pope says the church is not in the business of setting up a Government program or a party platform. Instead, it proposes practical ideals and criticizes existing ideals that are not going quite right or should go somewhat better.

I agree with Bishop Malone that this letter gets beyond the older categories of right and left. Some basic arguments being settled, it really invites all of us to start over again.

Chairman LAFALCE. There are reaffirmations to both, and there are challenges to both clearly.

Mr. NOVAK. That is exactly right. So, that is it.

Chairman LAFALCE. Thank you very much. I, as always, found your remarks stimulating, Mr. Novak.

[Mr. Novak's statement, with attachments, may be found in the appendix.]

Chairman LAFALCE. Our next witness is going to be Mr. John Steinbruner. Mr. Steinbruner is a scholar working out of the Brookings Institution. In fact, he is a specialist in foreign policy, correct?

Mr. STEINBRUNER. That's correct.

TESTIMONY OF JOHN D. STEINBRUNER, DIRECTOR, FOREIGN POLICY STUDIES, THE BROOKINGS INSTITUTION

Mr. STEINBRUNER. I have also prepared a statement which I will submit for the record. As is customary, this is an individual statement, not part of any institution.

Chairman LAFALCE. Without objection, we will put the entirety of your remarks in the record.

Mr. STEINBRUNER. I will summarize it very briefly.

As you noted, Mr. Chairman, and as the other speakers have noted as well, this encyclical is a very rich document with many judiciously balanced themes. I want to extract from it the main messages that I derived from it. I do not imagine that this is the only way in which it will be interpreted, but I think it a particularly important way. I do not think I will be alone in my reaction.

At a very general level, I see two very strong propositions emerging from it. One is the assertion that the failure of authoritarian socialism as a viable social philosophy, although it has liberated the world from a threat of war and repression--and that is to be greeted with a great deal of joy, as the Pope does—has also left a conceptual vacuum as to how common purposes are to be organized and pursued. I see the Pope seriously worried about the vacuum created.

He does endorse the principles of market economy and the particular assertion, philosophy of individual rights that accompanies it. It is very important that he does so. But I believe he is saying that this is not a complete social philosophy. In particular, it tends to undervalue the collective interest, and that is a problem that we

need to worry about. I read this encyclical, therefore, as a call to address ourselves to the issue of common purpose.

I do not imagine that I could add anything to the moral force of the Pope's statements, so I want to talk about some practical trends in the world that give powerful reinforcement to the comments that he is making and the guidelines he is setting forth.

First, I note that we are in the midst of a profound, largely spontaneous, technical revolution which is likely to change the nature of the way economies work in the course of the next century and probably much more rapidly than that. It is being driven primarily by the dramatic technical progress in the processing and transmitting of information. The transmitting of information over the last two decades has improved by two or three orders of magnitude, and it continues to improve at the rate of about 70 percent per year.

I do not think we have fully comprehended yet what this will mean in the way in which international economic activity is conducted. I think the Pope is anticipating this development, and pointing out that it is knowledge emerging from the processing and transmission of information that is the key to meaningful economic participation and to the overall performance of modern economies. Out of this transformation that we face, I think he is warning, and appropriately so, that there is a great deal of common interest to be defined and pursued. We will have to find mechanisms for doing so.

I extract from his comments, and from the practical situation, an imperative to develop what I would call policies of inclusiveness. By this I mean recognition that we are in the midst of a process in which an international economy is being created. We cannot, and should not, resist that. We do need to shape it, State its rules, and develop its necessary elements of regulation. But its underlying principle is that all countries and all people are to participate on equitable terms, and our policies must be so aligned to try to produce such a result. The burden of proof falls very heavily on anyone who would make an exception to this.

That implies to me that we need to be very, very careful about excluding or isolating any country on political grounds, as careful as we are about imposing criminal sanctions on individuals within our own constitutional system. We also have to be very careful and very concerned about the exclusion of people in terms of natural social dynamics. People who live in places that are not integrated into the developing global economy and who are subjected to such terrible conditions of disadvantage that it is a question as to whether you can say they are meaningfully participating in economic progress.

I recognize that these are abstractions, actually rather familiar abstractions. These thoughts have been talked about for quite some time. It is quite important to bring them to connect with real policy in order to get some practical sense of what they mean. As an illustration, I, in my statement, mention the current issue of Export Control, which in many ways is a vital matter, an essential matter, in the development of an international economy based upon the processing and transmitting of information. Access to those technologies is truly a matter of vital interest, both for countries and for individuals.

At the moment, we are systematically attempting to exclude certain countries from access to highest levels of this technology on security grounds, and we have been doing this for a long period of time, The supposition is that they are potential enemies and should be denied access to this technology for that reason. That seemed to be such a compelling matter that it was an overwhelming matter of consensus up through the last couple of years. It is now clearly an open issue of debate as the former enemies are changing their declared policy, and, indeed, to some extent the nature of their societies, in attempting to join the world on standard terms.

We are moving in the direction of removing these restrictions, and we have cut back on them, but we have not really changed our fundamental policy. We are still discriminating against the Soviet Union and most of the countries of Eastern Europe on the grounds that they are potential enemies and should be denied access to this vital technology. I think that that is both unwise and unsustainable, and it is in evidence of a revision of policy that we have not fully undergone.

Chairman LAFALCE. Well, Mr. Steinbruner, I think that when it comes to the gleaning of general principles we may be in accord, but when it comes to the practical application of those principles, people of similar perspective, with respect to the general principles, could differ markedly on the application of those principles.

I, for one, think we should be much more flexible in the positioning of our export controls than we have been. But by the same token, I do not think you would want to share all our technology with Iraq.

Mr. STEINBRUNER. No.

Chairman LAFALCE. No; how about Syria? Sometimes with us, sometimes against us, and we do not know where they are going to be tomorrow.

Mr. STEINBRUNER. I mention this case because I think it is a very difficult case. My general point is that we should do more than just discuss the general principles. We should struggle with the question as to how they connect to very practical policies of this sort.

Chairman LAFALCE. Yes. What I think is important is that we always have the principles before us, and 9 times out of 10 we do not have the principles before us, unfortunately. When it comes to the application of those principles, then I think that we liberals and conservatives, we Democrats and Republicans, can have our own puzzle, and as long as the principles are before us, we are making judgments, the backdrop motivation of those principles.

Mr. STEINBRUNER. I do not disagree.

Chairman LAFALCE. When you get to discrete cases, whether it is the Soviet Union or some other country, the Peoples Republic of China, et cetera, then you have some hard calls to make.

Mr. STEINBRUNER. Indeed. That is part of the point I want to make. That both on practice——

Chairman LAFALCE. Unlike John McLaughlin, I would not be one to say right or wrong.

Mr. STEINBRUNER. No, you cannot declare moral right or wrong down at that level of specificity. However, I do believe that, again, for both moral and practical reasons, we have to take these principles seriously enough to struggle with what they mean in these

very concrete terms. All I am saying is that we are not finished with that struggle. We do not have, I think, viable sustainable policies at the moment. We have a lot of thinking to do in exactly this area. Difficult choices.

In this particular matter, I was admitting that there will have to be some exceptions. My own feeling is that we are making far too many exceptions far too casually, both for our moral and for our practical interests, and, therefore, I see in this a call to rethinking that. That does not mean sweeping absolute revision, but it does mean something fairly substantial.

Similarly, there is a similar line of argument with respect to policies of economic development. We have developed very good techniques for encouraging the adaptation to or the adoption of market principle. The various contingencies that usually go along with involvement of the IMF, or increasingly, even the World Bank, are fairly effective at any rate in encouraging the transformation to a market-based economy, and necessarily so.

But we are not so good at preserving social equity as we do this. We are not effectively dealing with the political consequences of very uneven economic development which is likely to get much more uneven as the consequence of the underlying technical revolution.

Chairman LAFALCE. To what extent, in our dealings with other countries, to try to bring about reform of their political socioeconomic order, may we impose these quasi-conditions on our dealings with them?

Mr. STEINBRUNER. I cannot give you a categorical answer. I do think that we have to have a better answer than we currently do. To some extent, we must. But there are limits to how far we ought to go obviously.

There ought to be some scope for countries to organize themselves in terms of their own standards and values. On the other hand, clearly, there is something very real and important in the idea of universal human rights in which we rightly insist is the standard for the international community.

Chairman LAFALCE. Let me ask you this. At the present time, the United States and Canada are negotiating new commercial arrangements with Mexico. Some have euphemistically referred to them as free-trade. What is produced will probably be a far cry from that. Some would suggest that we have not seen open and free elections within Mexico for half a century; that we have not seen an impartial judiciary. Amnesty International has said that Mexico is a human rights emergency.

Should we attempt to include within discussions of any agreement with Mexico greater concern within Mexico or political principles that we think are basic economic principles of distributive justice that we think are basic or fair, impartial judiciary, and human rights, values that we think are basic?

Mr. STEINBRUNER. Yes; to some extent. Obviously, it is an extremely difficult and sensitive matter. It has to do with the conditions of sovereignty and national dignity on one hand and universal human rights and basic political principles on the other. The case of China and Mexico are just two areas where there are ex-

treme sensitivities in this matter, and you cannot resolve it absolutely one way or the other.

But, yes; in pursuing free trade with Mexico, we are also implying a fairly dramatic political change within Mexico as we are within China. The question of how we ought to go about it is important. Should we impose explicit sanction and require changes to our exclusive design before we regrant economic benefit? Or should, on the other hand, we deliberately grant the economic connection, knowing that the inevitable implication of that is political liberalization?

Chairman LAFALCE. How we do it, of course, is important, but the fundamental question is should we do it? In that, you give an unequivocal yes, correct?

Mr. STEINBRUNER. Yes.

Chairman LAFALCE. How about you, Mr. Novak?

Mr. NOVAK. Would you repeat the question for me? I'm sorry. My mind went on to something else.

Chairman LAFALCE. Well, Mr. Steinbruner was articulating on the papal encyclical. We got around to a discussion of Mexico, and we are talking about economic issues with Mexico right now. Talking about some new commercial arrangement. Somewhat euphemistically referred to as free trade, but I suspect what we wind up with will be considerably shorter than that. Some have also expressed some concern about the political freedoms within Mexico and economic distributions within Mexico of the human rights condition there.

Are these to be concerns that are discussed and dealt with within the context of any potential trade agreement we might enter into?

Mr. NOVAK. Congressman, these are legitimate concerns, and they should be discussed. The question of when you do it is something you have to calculate in terms of the results you expect. I served as the human rights representative for the United States to the Human Rights Commission in 1981 and 1982, and again to the Helsinki talks on human rights in 1986. It was my experience there that it was always best in the human rights field to concentrate on results, not just on getting words on paper, because the U.N. can produce lots of words.

Chairman LAFALCE. True.

Mr. NOVAK. In different countries it turns out that you emphasize this rather than that. It has a much better effect.

For example, typically economic progress precedes rapid political progress. It is exactly as there comes to be a more energetic and——

Chairman LAFALCE. For instance, if you look at China, that was true. If you look at Poland, that was not true.

Mr. NOVAK. Well, in Poland I would say that——

Chairman LAFALCE. Political freedom preceded economic considerably, and in China we have seen economic development changes, but the political has not kept pace.

Mr. NOVAK. Well, I was thinking of it in Poland, that the organization of Solidarity which was at such a level that you could conduct a free and open—not perfectly free and not perfectly open—but you could conduct an unstopped force, the church providing some free space to make sure that intellectuals and workers stayed

together, which they had not done in the preceding two Polish revolutions. One case led by the workers, the other case led by the intellectuals, but not together.

Well, in this case, there was at least sufficient economic stability at a very low level, to be sure, that people demanded more than their basic needs.

By the way, one thing we learned in 1989 is that the philosophy of basic needs, to fill the basic needs of people, which so many liberation theologians took as their battle cry, just did not work in Eastern Europe. People's basic needs were fulfilled, but they are not animals. They are not content with basic needs. They want freedom. Thus, there came the rebellion.

Anyway, my only point is this. Unless in Mexico there are changes that allow poor people to own land, to incorporate their businesses cheaply and quickly, to obtain credit legally and at low-interest rates, you are not going to see the making of a middle class which will give true political stability to Mexico.

Chairman LAFALCE. So, an agreement could be primarily for the affluent elite, if we do not have those basic structural reforms.

Mr. NOVAK. You want to encourage their basic structural reforms throughout Latin America. What the Pope calls—I am not quoting his exact words, but a kind of quiet revolution of social justice. But in this case, it means bringing the poor into the position where they can use markets, where they can incorporate their businesses. Hernando De Soto, in his book points out in Peru it takes 271 days—I'm citing from memory—271 days of full-time activity the paying of fees and bribes amounting to $2,000 and some dollars in order to start a business. Hong Kong, you do it by mail.

Chairman LAFALCE. Is that true of Mexico?

Mr. NOVAK. It is mostly throughout Latin America. I cannot speak immediately to Mexico, but Mr. Steinbruner probably could. But it is true in many places in Latin America.

Chairman LAFALCE. Is it true in Mexico, Mr. Steinbruner?

Mr. STEINBRUNER. I would not like to comment off the top of my head on just that——

Chairman LAFALCE. They refer to it in a lot more detail——

Mr. STEINBRUNER. It is certainly true that the Mexican economy is poorly distributed. Few participating in the mainstream economy.

Chairman LAFALCE. It is one thing to have general principles. It is another thing to apply them. Of course, in applying them, you are going to offend sensitivities and sensibilities. But I think that if you are going to have a document that is effective, you must offend sensitivities and sensibilities at some point in time. You are not going to have any omelet without cracking a few eggs.

Mr. STEINBRUNER. Right. That is the point I was trying to make. For this document to be meaningful, and I think some of its themes must be made meaningful, there will be a lot of sensitivities that will have to be challenged, and a lot of movement in all places, as a matter of fact. We will to have to deal with practical circumstances, and it will be uncomfortable.

Just the other part that I was noticing is that I do think that we are in sight of circumstances in which some effective coordination for global environmental protection will be necessary. At that

point, we will need much more robust mechanisms of international coordination than we currently have—better rules of equity and better means of bringing it about. That is likely to impose some very uncomfortable conditions on the United States itself. Dramatic changes in our patterns of energy consumption are almost certain to occur in the course of the next century.

Chairman LAFALCE. So, we might need much stricter energy conservation measures, whatever they might be, on moral grounds in addition to economic and environmental grounds.

Mr. STEINBRUNER. I would suggest as a combination of moral and practical imperative here; both of them very strong and mutually reinforcing. We are anticipating this. We are not getting ready for it, and it is very difficult if you rely solely on market mechanisms. We know that markets are incomparably powerful in handling immediate operations. A well-regulated market simply cannot be beat in terms of its ability to provide basic economic prosperity. Markets are not very farsighted, however, and they do not go through big transformations easily. They can produce a lot of misery in doing so.

We are facing some problems where farsightedness is definitely necessary, and I think the Pope is saying we have to supplement market economics with something in addition.

Similarly, our national——

Chairman LAFALCE. I interrupted you in your remarks, Mr. Steinbruner. Why do you not take this opportunity to take as long as you want to complete the development of your remarks.

Mr. STEINBRUNER. I have virtually completed it. I was picking out a couple of practical examples: The rise of global environmental management issues; the spontaneous integration of the economy because of the technical revolution going on requiring, I think, a very different set of policies.

I believe the encyclical is suggesting, and I believe practical events are demanding, that we create a new international economic quarter. The United States will have to provide much of the leadership in forming such an order. We must do so in our own interest, but the conception of our interest will have to be much broader than it has historically been. That's the basic part of what I was trying to say.

Chairman LAFALCE. Well, thank you very much for your excellent presentation also.

[Mr. Steinbruner's statement may be found in the appendix.]

Chairman LAFALCE. Before I go into any questioning, are there any comments that any of the three of you might have to elucidate on previous remarks that you made that you had a second thought about and said, "Gee, I should have said this a little bit differently or a little bit better?" Or would you care to comment on the remarks of any others, either to specially concur with them or differ ever so slightly from what they had to say?

Yes, Bishop Malone.

Bishop MALONE. Moving in where wiser men probably would remain silent——

Chairman LAFALCE. I think you were all the time.

Bishop MALONE. Because I do affirm that the moral principles cannot be called upon to support specific programs.

It so happened, relative to this question of the Mexican economy and the FTA for Mexico and Canada, that I was part of a group of about half a dozen American bishops who met with some dozen Mexican bishops for the purpose of talking about fast track versus the action which the Congress finally adopted, and, as we met, we were addressed by the head of the Federal Trade Commission, and——

Chairman LAFALCE. In Mexico?

Bishop MALONE. No, here in the United States.

Chairman LAFALCE. Oh.

Bishop MALONE. The Mexican representative was here as well to speak. But the point I am about to make is this. In the interest that the bishops of Mexico and the United States expressed in the proposed FTA, our concern was that as we are forging new economic understanding, we needed to accompany those at every step with an awareness of the human rights that were being effected. That we should be aware as well of a point that Mr. Steinbruner made of how the environment is being affected.

It seems strange to some of us to talk about the environment when we are aware of the atrocious environment that is part of Mexico City's ecology. But we wanted to make the point, both as United States bishops and they as Mexican bishops, that the human rights workers, who currently are not respected in my opinion, in the commercial enterprises that take place along the border, we need to attend to the human rights workers, we need to attend to the human rights as regards working conditions. But also, we, as we go down there with our know how, should have a commitment to protecting the environment which the Nation that is entering into this agreement with us does not seem to respect in the same way that we are coming to respect it.

I offer that only as a little insight into the way in which I think those of us who are primarily interested in human rights and environment in principle have to come to terms with human rights, environment, and operational functioning.

Chairman LAFALCE. You can offer as many insights as you want, Bishop.

Mr. Steinbruner.

Mr. STEINBRUNER. I want to return briefly to the issue of export control.

Chairman LAFALCE. Sure.

Mr. STEINBRUNER. Iraq is an extreme case, and it is obviously an example where we do want to impose very strict sanctions. In order to do so effectively in cases of this sort, we must have much more cooperation among all the other countries than we currently do. Otherwise, we will simply lose that game on practical grounds. That was my point.

The imposition of sanctions by the international community probably will be necessary in difficult cases, but that has to be the exception to the basic pattern or it will not work. The diffusion of weapons technology is extremely threatening to us over time. We must have the cooperation of all the major countries, the Soviet Union and China included, in order to manage this threat. We must forge policies of inclusiveness with respect to them to have

any hope of establishing a well-regulated international arrangement. That is the fundamental shift I was talking about.

Chairman LAFALCE. Good. Thank you.

Can we now conclude, without fear of challenge, that *Centesimus Annus* lays to rest once and for all the idea that the church's social teaching favored some kind of third way between market capitalism and communism, Mr. Novak?

Mr. NOVAK. John Paul II made that point laying it aside in the preceding encyclical, *Solicitudo rei Socialis.* The church offers, he said, no third way. What it does do is criticize all existing systems. No system that we work out in any country or any part of the Earth is going to be the Kingdom of God. The church is going to keep saying that and holding up present systems to the fire and saying they are not adequate in this or that respect. That will always be the case.

Now, getting the criticism exact is not so easy. It is easy to see that things are wrong. But putting your finger on exactly what is wrong takes a bit of insight.

Chairman LAFALCE. OK.

Mr. NOVAK. This is where I think John Paul II is really unusual.

Chairman LAFALCE. Mr. Steinbruner, and anybody else who wishes to comment, please do so, but I will probably ask the person I think is most interested in the subject.

Some have interpreted prior encyclicals—Pope Paul VI's *Progressio Populorum,* for example, as blaming the West for the poverty of the Third World, at least in part. In this particular encyclical, John Paul cites barriers and monopolies as a cause of countries being on the margins of development.

Do you think that is a fair characterization? Do you think it is unfair? Or what do you think that the characterization of this particular encyclical is on that issue?

Mr. STEINBRUNER. I am always suspicious where people are trying to assign blame.

Chairman LAFALCE. Yes.

Mr. STEINBRUNER. This particular encyclical is very judicious in that regard. It does not seek to impose blame. It is giving moral standards forcefully without issuing these kind of edicts of injunction or whatever.

No; I think it is unfair to blame Western economic development for the poverty of the Third World, as if this were a necessary outgrowth. The poverty of the Third World is not a direct consequence of Western economic development.

I do, however, think that the encyclical states, as do practical events state, an obligation to do something about extensive international poverty, even if we have not created it. Current levels of poverty are not a sustainable tolerable condition, the Pope is saying. So, nations have an obligation to try to overcome it. The Pope is stating that in moral terms, and I would reinforce it in practical terms. I do not think we can safely and efficiently run an international economy as integrated as this one is going to be with development as uneven as it currently is.

Poverty, therefore, is a condition to which we have to address ourselves, not because we created it, but because we cannot tolerate it.

Chairman LAFALCE. Does anybody else wish to comment?

Yes, Mr. Novak.

Mr. NOVAK. I should like to jump in on that if I may, Congressman.

Chairman LAFALCE. Sure.

Mr. NOVAK. One of the characteristics of the Pope's way of thinking, which when he was a philosopher he used to call "phenomenological," is the attempt to see the way real agents are functioning in the real world, or to step back and try to grasp it whole. He does that throughout. For example, I am going to read a very short passage. This is from section 33. He talks about the quasi-servitude in which many of the people in the Third World still live. They are not able to own their own land. They are kept in such ignorance of techniques and skills that they have very little human capital. He speaks of that as the kind of inhuman exploitation that was still present in the advanced world in the days of *Rerum Novarum.*

Then he says, "Unfortunately, the great majority of people in the Third World still live in such conditions. It would be a mistake, however, to understand this 'world' in purely geographic terms. In some regions and in some social sectors of that world, development programs have been set up which are centered on the use, not so much of the material resources available but of the 'human resources'."

The Pope does not say, but I am pretty confident he means Japan and the East Asian countries. Japan has very limited natural resources, but an extremely well-educated, able people, very high human capital, who have to bring in practically all the natural resources they need. The Japanese are 100-percent energy dependent. Nonetheless, they exhibit such intelligence, skill, and disciplined habits that they compete effectively. In fact, they compete better than anybody else in a fair and open struggle.

I think that is one of the bits of evidence the Pope has picked up that wealth does not come from natural resources. A country like Brazil has enormous natural resources and is very low in population. Brazil has the same population as Japan. Japan, on the other hand, is densely populated, with no natural resources. It is a clear cut case of a country that ought to be desperately poor. How do you explain that? I think the Pope explains it by his view that the main cause of wealth is man himself, the human resource, knowledge and skills.

I think this gives the Pope considerable hope for Third World countries, along the line of something that Dr. Steinbruner is arguing. The key to helping the poor in such places is opening up the system so as to include them, to let them share in the new technologies, to let them share in the open markets, to let them share in the flow of labor, to bring them into the flow. Otherwise, they are marginal.

Chairman LAFALCE. It is so important to have this focus on the human person.

Let me ask you this, Mr. Novak. At the beginning of this decade, circa 1982-83, I started talking about the necessity for forging an industrial competitive strategy primarily for America—corporate America. I had read most of Mr. Robert Reich's works. We always understood the importance of human capital, but it was still how

can we make American businesses more competitive and that we need industrial competitiveness strategies to do this. Some called it industrial policy and rebuked it as such.

Now, he is changing his thinking or marketing it differently, saying "We can't be concerned about American corporations anymore because we don't have American corporations. They are all multinational." I say they are transnational in a sense that they owe their allegiance not to one country or any number of countries. They do not owe their allegiance to any countries. They owe their allegiance to the bottom line. We need to focus competitiveness strategies on the American worker, the individual human person.

You, as a leading spokesman for a conservative element in America——

Mr. NOVAK. You mean not only the knowledge and the skills acquired by workers, because you can only ask workers to produce up to the level of their skills and ability. In this respect, Americans have always been fortunate. Our workers have been able to respond to the most incredible demands placed on them, getting liberty ships into the water in 4 days in World War II, for example, an incredible feat of sheer workmanship.

But when you talk about human capital, you also mean moral skills. Do our people today have the same willingness to work as hard, and as long, for as little with little reward as our parents and grandparents did? Are we losing some of our moral toughness? Are we losing the willingness to strike out on our own?

Chairman LAFALCE. Well, it was not that our parents and grandparents wanted to work so hard for so little. It is that they wanted to work so hard and so long for more, for a bigger piece of the pie than they had.

Mr. NOVAK. No; I understand that all right, but you wonder, at least if you teach school. One of my great frustrations as a college professor was correcting term papers—to sit and correct term papers for hours and try to write helpful comments and then to find fewer than a third come to pick them up, even to read the comments.

You wonder with what seriousness they are taking it. We must emphasize achievement as a culture, give it attention through the media, through public officials, through the churches, through every outlet we can. We are in a worldwide competition, have to do better. Each one of us has to draw on the best that is in us. We have to develop whatever range of talents and skills God gave us, but then we have to apply those to the best of our ability. That could only help us.

Chairman LAFALCE. This is a little bit off the point. But you mentioned about being so disappointed when the students did not show up to pick up their term paper.

About a year ago I gave a commencement address at one law school and two or three of the law school faculty showed up for the commencement. This year I gave a commencement address at a different law school, and it was mandated that every member of the faculty show up. I could not help but think of the tremendous difference that I saw in the students, too. You have to show up to pick up your term paper. You have to show up, if you are the teacher, too, for your students in an important moment such as that.

Mr. NOVAK. This is where I think a point the Pope makes is very important: Cultural ecology, not just an ecology of the natural environment, but an ecology of culture. If the whole culture tells you, you have to show up, you have to do good work, you have to take a term paper seriously, you do.

Chairman LAFALCE. Yes.

Mr. NOVAK. One professor alone could not make students do that. If nobody else is doing it, you cannot force it. It is part of the culture. We were surprised by television. We were surprised by movies and their power, and by rock music and its power. We have lost a bit of the toughness of our culture which the Japanese have not lost, I think competitively this gives them a terrific edge.

When I was in South Korea I asked a man how did you succeed so quickly? I was surprised by the kind of affluence that there is in Korea. My uncle was there right after World War II. I remember the stories and the pictures he showed from that time. It was desperately poor.

He said, "It's easy. We studied the Japanese. We don't like the Japanese very much. They were our conquerors, but," he said, "we admire them. We notice they did three things. They used chopsticks, they did calligraphy, and they played baseball. Now we use chopsticks, do calligraphy, and have started playing baseball, and sure enough we started to succeed." I laughed a little bit. He said, "No, I am not kidding. To succeed you have to do both." He said, "Look at China. They use chopsticks, but they don't play baseball." "Look at Cuba. They play baseball, and they don't use chopsticks." I said, "What's your point?" He said, "Because chopsticks and calligraphy relate the brain to the hand. The better coordination of those skills you have, the better you are going to perform in competitive manufacturing."

Baseball was crucial because we had no conception of the individual. We did everything in collective. In baseball you go to the plate one at a time, yet you have to work in association. It is a new idea of community. It is also a new idea of law, because it is a very free game except nothing happens until the law says so or the umpire calls it: Out, balls or strikes.

So, we learned a new relationship of law and liberty. A new relationship of individual association. Without that, you cannot be a modern society.

Chairman LAFALCE. It is interesting. This past weekend I took my son and my wife to Cooperstown, New York, where we learned all about the history of baseball. Where do I take my son this weekend to learn about chopsticks and calligraphy?

[Laughter.]

Chairman LAFALCE. Well, we have been on this encyclical in its broadest sense, but a little more specifically, how do you think that some of the formerly communist countries, now emerging democracies, are going to—what influence do you think this is going to have, for example, in Eastern Europe, in Poland, in Czechoslovakia, the Baltics, and the Ukraine? Do you think that this encyclical is going to have much of an impact in the short term? By the short term I mean, say, over the next decade? Does anybody care to comment on that? Should we be aware of this encyclical if for no other reason that if it may have little impact on the United States, it

might have considerably greater impact in other countries and, therefore, in order to respond intelligently to what is going on in other countries, we have to see what impact it might have there.

Mr. Steinbruner.

Mr. STEINBRUNER. Well, I am thinking out loud here, and it is perhaps always a dangerous thing to do. Nonetheless, I would say that this encyclical probably expresses very well the attitudes emerging in Continental and Eastern Europe. That is no accident. One of their people is speaking here. See the leaders of Central Europe are espousing the market principles and individual human rights that are the core of the emerging international economy. They are also aspiring to produce vision, a common purpose beyond that.

We are seeing a lot of divisive ethnic nationalism emerging, which is potentially very troublesome, But at the same time there is a core aspiration being expressed, that has been present for many, many years. The countries of Central Europe trying to join the world community and be accepted, on equitable terms. The barriers imposed by socialism and Soviet domination have been removed. They now face the perhaps more difficult ones of transcending their own economic conditions but their aspiration seems to me to be as assertively and fully formed as it is in this encyclical. That desire to join larger political communities excessively qualifies nationalism.

As they themselves realize, they are likely to need help in meeting this aspiration. They used market access for sure, which we are not yet granting. They also used direct investment which we are, for pretty good reason, reluctant to provide. But they are basically saying they cannot make it without that.

Chairman LAFALCE. What should we do with respect to the Eastern European countries? Now, the republics are a special case, so let us exclude for a second the republics. What should we do with respect to—I call them Central European countries—that we have not already done? Have we not given most favored Nation status to them?

Mr. STEINBRUNER. Yes, we have given most favored Nation status. That is a statement of principle which is helpful as far as it goes. But when you get down to the details, we are denying them market access in many important ways.

Chairman LAFALCE. How are we doing that?

Mr. STEINBRUNER. Through quotas on products, particularly agricultural products. Indeed, dual-use technology is not fully liberalized. We still have elements of restriction then that are a residue of their past association with the Warsaw Pact, particularly outside of Poland, Hungary, and Czechoslovakia.

Chairman LAFALCE. Yes; well, with respect to those three countries, and I for one, after I came back, called for an elimination of our export controls, at least on those, and——

Mr. STEINBRUNER. For them, we have gone fairly far.

Chairman LAFALCE. Yes, right. I introduced legislation; it is now the law of the land, which creates a special small business enterprise development commission so we could just focus in on the small business person in those three countries in particular.

What other specifics, not just for those three countries, but——

Mr. STEINBRUNER. I would say that infrastructure development is vital, important, and yet unresolved.

Chairman LAFALCE. Well, of course, we have come up with the European Bank for Reconstruction.

Mr. STEINBRUNER. It has all of $12 billion in its capital assessment. Given the magnitude of the problems that they face, that simply is not enough. So, there is a specific. We are not doing enough in that regard.

Chairman LAFALCE. Yes; of course, one of the nice things about that is that it does have a greater emphasis on the private sector as opposed to the other international development institutions which give greater emphasis to the public sector.

Mr. STEINBRUNER. That is correct. But, again, what we need here, as I believe is implicit in the encyclical, is a blend of private sector and public sector action. Private sector is not going to handle all of this all by itself. In particular, it is not going to develop infrastructure that it needs all by itself. Private investment is not adequate for that.

Chairman LAFALCE. When I came back, I also called for the administration to embark on a course of debt-for-environment swaps. Because so much of the debt, say, of Poland was public debt. That if we could forgive the public debts as long as they would use that money in local currencies for clean-up of the environment. George Bush recently has embarked upon a program of that nature.

Does anybody else want to comment on the vision of the future applicability of this encyclical to Central Europe or the republics that I have mentioned within the Soviet Union?

Mr. NOVAK. Father Joseph Tischner of Poland wrote a piece in the *National Review*, in a set of articles on this encyclical. He said it was extremely important for Poland. You have to try to imagine what it is like to have spent 40 years as a student, or journalist, or in the government, or whatever, without any access to books on the free society, economic liberty, political liberty, or cultural/moral/religious liberty. I am a very strong believer in the role of ideas as a principal means of development. Just to have the ideas available is extremely important.

I would like to see, as a primary mover in the development of the future, more seminars, summer courses, and interchange between Americans and Eastern Europeans or Central Europeans, as I prefer to say, because they think they are at the heart of Europe, not on the edge.

Chairman LAFALCE. I entitled my bill The Central European Small Business Development Commission.

Mr. NOVAK. It is a very important way of touching their hearts, because it is exactly the way they think. I remember a sign in downtown Warsaw that said, as I recall it, "1,432 kilometers that way—Moscow. 1,432 that way—Brussels."

Chairman LAFALCE. If you look at a map, E-U-R-O-P-E, and these countries are under the R. If anything, they should be Western, but certainly Central.

Mr. NOVAK. Anyway, I am in favor of many more exchanges of seminars and discussions on what is the rationale of private property? What does it mean? How is it expressed legally? What is contract law and marketing? You cannot take it for granted that these

things are understood. They are not. You have got to go back to the basics.

Chairman LAFALCE. We are going to go into the course of a seminar shortly, but before we get to that, let me just switch gears now to another region of the world.

All of Latin America, and we have had a tremendous amount of liberation theology develop within Latin America over the past several decades. Very often they attempted a compromise, it seems to me, between Christianity and Marxism, which has been denounced as an impossibility.

What do you see as the impact of this encyclical on the countries of Latin America and, also, second, upon the practitioners of liberation theology in particular?

Bishop MALONE. Well, of course, one of the most difficult definitions to achieve is a definition of liberation theology that everybody is happy with. The critique which the Holy See has given of liberation theology is expressed through the Congregation of the Doctrine of the Faith by Cardinal Ratzinger, is that the liberation theology in some cases has adopted the Marxist dynamic for change and the very clear stricture that the Holy See has set against liberation theology is precisely on that point. Granted the economic realities of Latin America need to be changed and improved. The process by which such change in the social order is effected is not to be by violent means. So, from that point of view, it seems to me that this encyclical is pointing out means for change which clearly are nonviolent.

Continuing in the tradition of *Populorum Progressio*, this encyclical, too, speaks about development as another word for peace, and the development of which the encyclical speaks, as both of our contributors here besides myself and the panel have just been illustrating, development is a very rich word that speaks to the development of the human person, the human potential, speaks to the development of environmental factors, and speaks to the development of the economy. So, it would seem to me that relative to what does this encyclical say about liberation theology, I think from the viewpoint of the strictures that have been most consistently raised against the liberation theology movement, this encyclical stresses development which would be in line with the Holy See's view of what was wrong with liberation theology.

Mr. NOVAK. In addition to that, Mr. Chairman, the Pope's emphasis on the cause of the wealth of other nations offers a new way for liberation theologians to approach their task. The major weakness was not so much the question of violence as the economic analysis and social analysis, which argued that Latin America was poor because other places were rich. The poor get poorer, the rich get richer. That did not hold up against the evidence of Southeast Asia, or even Japan. Southeast Asian countries were poor at the end of World War II, more poor than countries in Latin America, and now they have become very wealthy.

There are ways in which to produce development, both on the economic and on the cultural level. It is these ways, I think, which the Pope has analyzed much more accurately than any liberation theologian by seeing the role of creativity, enterprise, economic ini-

tiative, markets, bringing people into markets, and not excluding them through monopoly.

I think he has laid out a method which ought to be called creation theology and will actually liberate the poor of Latin America and Eastern Europe, as they have liberated most of the poor here and elsewhere.

If liberation theologians should be commended, it should be for drawing attention to the poor. If they should be faulted, I would fault them for giving the wrong analysis of the causes of poverty and the way to get out. They offered very little in concrete for ways of getting out of poverty. The Pope offers a great deal more. I would expect liberation theology to turn in a new direction, a more creative and enterprise initiative showing the direction in the future.

I am pretty hopeful about that. You are beginning to see some real economic progress in some countries, and other countries are straightening out their house much better than before.

Chairman LAFALCE. I publicly and personally have applauded the encyclical for what it has said. But I do have a problem with it, something that it has left unsaid, which renders it in my judgment incomplete.

One of the areas of concern for me as chairman of the Small Business Committee has been the recognition of the untapped human potential, the American woman. In 1988, I introduced a bill which gave the number H.R. 5050 calling for equity, symbolizing equity. I termed it Business Women Ownership Development Act of 1988. It is now the law of the land. Last week I introduced the Women's Business Ownership Act Amendments of 1991.

Historically, I have had difficulties with the church's position vis-a-vis women. I think I share some of the American church's difficulties with it, too. The American bishops have and do wrestle within the entire Roman Catholic context.

But I was disappointed that the new encyclical did not even allude to the institutionalized sexism that is such a pressing problem in many of the world's nations, both developed and developing.

Would anyone care to comment? If not, that is all right.

Mr. NOVAK. Congressman, I will be the one to venture in here.

I do not have figures for it, but I have asked people in Latin America about this. There is an extraordinary outburst of small businesses starting up among women in Latin America. I do not know if anybody has quantified that, but it would be well worth looking into.

Chairman LAFALCE. I know it is extraordinary within the United States, and we have quantified it to a certain extent in our committee reports.

Mr. NOVAK. From the point of view of Rome, the feedback they get on the way cultures determine roles of men and women is not exactly like our culture. We have to understand the enormous cultural diversity of this planet on that matter. It takes a certain degree of development for women to be able both to bear children, have the wherewithal to support them, both the human capital and other resources, and also to acquire the education to start their own businesses. This is legally possible only in a few places on this planet.

Throughout Latin America, most of the small businesses are illegal. You cannot get a permit to start a small business. Around 90 percent of the public transport in Lima, Peru, is provided by small businessmen and women who are performing illegally. They can be jailed at any time for their activities. Throughout Latin America, the "illegales" as they are called, suffer under great disability. They are doing creative work.

Chairman LAFALCE. Are you aware of any studies that speak of the difficulties of small businesses in the Latin American countries?

Mr. NOVAK. Hernando De Soto is a best-seller all over Latin America. His book is a study of Peru. He is now an adviser to the new president of Peru. Some of the reforms he speaks for, are put into effect. The book has been celebrated all over Latin America as a fair representation of the circumstances.

De Soto points out that the vast majority of the poor in Latin America are neither peasants who are fleeing the land, nor proletarians. There are not that many factories. They are entrepreneurs. They are buyers and sellers. Yet most of their activities are prohibited by law. They cannot be crushed, so they go on. De Soto tells of a shirtmaker who, with his wife and mother, began making shirts and then organized some other village women. When they started reaching 50 a week—I do not remember the exact number—the local shirtmaker got distressed and reported the operation. It was closed down, because they were doing all this illegally. They did not have a permit.

So, I think this is behind the letter too, empowering the poor to do their own ordinary economic initiatives. I think we too little appreciate how wonderful a thing it is to be able to do that here.

Some Americans cannot imagine that the whole world is not like America or Western Europe.

Chairman LAFALCE. Let me go on from that question unless others wish to respond.

Bishop MALONE. Could I make this observation?

Chairman LAFALCE. Surely.

Bishop MALONE. As an international church, the Catholic Church preaches the gospel in a variety of cultures. Within the past month, the American bishops, in the process of writing a pastoral letter for the United States on the role of women in church and society, we were invited by the Holy See to come for a consultation with bishop leaders from other countries, both from the continent of Europe, Asia, and Africa. The purpose of bringing the Americans over in the process of writing a letter together with these other cultures was to give the other continents an opportunity to say to what extent is what you are saying to the United States women relevant to the women of our cultures?

To put this in broad strokes, there were relatively few countries that could speak of the role of women in the same terms as what we can in the United States as regards the role in society and also in the church.

So that one has to recognize that when we are speaking about the Holy Father's writing and encyclical to the international church, that this question of the role of women is one that deserves more direct attention, needs to be clarified, needs to be studied,

and needs to be approached really from the viewpoint of the needs of the various cultures. A topic I would suggest that was probably too complex for what could be included in an encyclical that was treating specifically of another topic.

Chairman LAFALCE. Bishop, sometimes documents are written, and they are written to be chewed, digested, and tasted, et cetera. Very often, rather than that, as Sir Francis Bacon suggested, they collect dust.

What plans do the American bishops at least have to have the type of dialogue with respect to *Centesimus Annus* that you sought, for example, on the draft of the Bishops' Pastoral letter on the economy? Has there been discussion yet for discussions groups in individual parishes, for seminars, et cetera, with respect to *Centesimus Annus*?

Bishop MALONE. There are no complete plans for such a commitment. But clearly, if we look at the vigor with which the U.S. Catholic community has observed this 100th anniversary of *Rerum Novarum*, we can confidently expect there will be close and continued attention given to examining the teachings of *Centesimus Annus* and its implications for us here in this country.

When I say the vigor with which we pursued the celebration of the *Rerum Novarum*, I cite the variety of seminars that have been convoked in various college and university campuses; the variety of convocations in the some 185 diocese nationwide. It focused on the social teaching of the church. Monsignor George Higgins, who is an outstanding cleric in the role of social teaching in the United States setting——

Chairman LAFALCE. Our labor priest?

Bishop MALONE. Our labor priest.

Chairman LAFALCE. Unfortunately, we do not have too many of them anymore.

Bishop MALONE. He has stated that this 1991 observation of *Rerum Novarum* in Catholic circles is probably the best observance of Catholic teaching that has ever occurred anywhere in the world. I would be prepared to take great satisfaction in that.

But using that as a reassurance, I would say the vigor with which we pursued the observance of *Rerum Novarum's* 100th anniversary will give us the same kind of enthusiasm for moving ahead on *Centesimus Annus*. It would be my conviction that we need to do that, and I will lend all my personal efforts within the conference to make that come true.

Chairman LAFALCE. Good. I would hope so. By way of concluding, that, of course, is exactly what I attempted to do today, to conduct a seminar of sorts on *Centesimus Annus* for those Members of Congress who would be interested, at least to the extent that it will be publicized, part of the official records, et cetera.

Are there any concluding comments that any of you wish to make?

Mr. NOVAK. May I comment, Mr. Chairman? I think for the first time you will see an extraordinarily enthusiastic outpouring among conservative Catholics. The whole broad middle feels very much included in this encyclical. They are very much for democracy and cultural reform. They recognize both the possibilities and the limits of markets and enterprising creativity.

I think there will be a burst of energy on this side. That will be very, very important for the whole debate.

Chairman LAFALCE. I think that is very good, Mr. Novak. As you do, too. However, since you mentioned that, let me express my concern to you. Let me go to the prepared remarks of Bishop Malone.

If you and your write-ins emphasize what Bishop Malone said conservatives could look to, the affirmation of the market, I do not know how much good you would accomplish to those who traditionally read you and follow you. I would hope that you could emphasize the other part of Bishop Malone's remarks. The responsibility to address needs not met by the market. For liberals who have a passionate priority for the poor rather than spend all their time getting vindication from the papal encyclical on that point. I would hope that they would emphasize the warnings about bureaucratic excesses of some responses. If each side would look, not as much to how the papal encyclical has vindicated them, even more to the lessons that they need to learn, I think we will get the maximum good from the papal encyclical.

Mr. NOVAK. I did not mean, Congressman, that this should be used as a vindication or a one-sided approach, at all. But I do think that the conservative sense of initiative has been included for the first time. There is a kind of invitation here to undertake the sorts of reforms and changes that conservatives also enthusiastically applaud.

I do not think that this letter by any means comes down on the conservative side, but conservatives were included in the debate in a very potent way.

Chairman LAFALCE. I remember two seminars I had on the importance of cooperation between labor and management in order to make the American work force more productive and competitive. In the first seminar, I got together with the person from management and I said, "Your job is to tell management how they have to shape up." I got together with the labor union later and I said, "Your job is to tell labor how they have to shape up." They did it. We had a magnificent conference with I think tremendous results.

Then I had another conference. Same subject, same issue. I said the same thing to both. This time a fellow from management told labor what they had to do to shape up, and the fellow from labor told management what they had to do to shape up, and it was disastrous. So, that is what I was getting at.

[Whereupon, at 12:10 p.m., the committee was adjourned, subject to the call of the Chair.]

APPENDIX

COMMITTEE ON SMALL BUSINESS
HONORABLE JOHN J. LaFALCE, CHAIRMAN

HEARING ON

CENTESIMUS ANNUS

Tuesday, June 18, 1991
10:00 a.m.
2359 RHOB

The Committee on Small Business will come to order.

This morning the Committee on Small Business is pleased to hold a hearing on Pope John Paul II's new social encyclical Centesimus Annus, "The Hundredth Year". The encyclical commemorates the 100th Anniversary of the first social encyclical, which was issued in 1891 by Pope Leo XIII and entitled Rerum Novarum, "Of New Things".

The new papal letter has generated a great deal of comment and discussion worldwide, not as a religious document in the sectarian sense of the word, but as a document which examines the entire range of economic systems from the viewpoint and perspective of fundamental human social values. As the recent U.S. Bishops' Pastoral letter on the U.S. economy stated "the dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured". In short, the economy exists to serve people, not the other way around, a sentiment with which I am in wholehearted agreement.

Most Committees of the Congress, including this Committee, are normally concerned only with the day-to-day nuts and bolts of budget deficits, trade balances, unemployment statistics, capital availability, stock market prices, interest rates -- and the whole range of practical everyday economics. So it is good every once in a while to step back from the trees of these everyday concerns to examine the forest -- the philosophical, moral and social policy assumptions which underlie the West's economic systems and those which underlie systems in other areas of the world. This is particularly true today when American businesses must increasingly deal with a very rapidly evolving world economy which, over the next decade or two, may alter economic institutions world-wide on a basis more profound than all that has happened in the last 100 years.

The importance of economic and social theory should not be underestimated. Pope Leo's 1891 encyclical, for example, had an enormous influence on 20th Century economic and social policy. He called for the legalization of labor unions and the recognition of the right to strike. He called for a system of social security, worker compensation and unemployment assistance. He called for wage and hour laws and child labor laws. He also wrote a scathing analysis of socialism and resolutely defended the institution of private property at a time when socialism and Marxism were only intellectual fancies. And he set forth his views in the context of centuries of Judaeo-Christian beliefs and values. His encyclical soon became the "philosophy of action" for the new Christian Democratic parties of Western Europe and Latin America. And he anticipated by 40 years the program of Franklin Roosevelt's New Deal.

It remains to be seen whether the new social encyclical will have the same impact over the next 100 years. But, as Harvard University acknowledged in handing him an honorary doctorate prior to his election as Pope, John Paul II is a world class social philosopher in his own right -- and his views will be carefully studied throughout the world. His principled endorsement of the free enterprise system as best suited to the ideals of human liberty underscores American values, and will be especially important in Central and Eastern Europe and in Latin America as nations in these areas plot their way in the post-Marxist world order. So, it is well to take a little time to make ourselves aware, and to help make America's business community aware, of some of the currents now shaping the world's economic future. It is hoped that today's hearing will assist in this effort.

To testify on the encyclical we have The Most Reverend James Malone, Chairman, Domestic Policy Committee, U.S. Catholic Conference; Michael Novak, George Federick Jewett Chair in Religion and Public Policy, American Enterprise Institute; and John Steinbruner, Director, Foreign Policy Studies, The Brookings Institution. We will first hear from Bishop Malone.

UNITED STATES CATHOLIC CONFERENCE

Congressional Testimony

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Testimony

of

Most Reverend James W. Malone
Bishop of Youngstown
Chairman, Domestic Policy Committee

on behalf of

The United States Catholic Conference

before the

House Committee on Small Business
of the
United States House of Representatives

on Centesimus Annus
The Encyclical of Pope John Paul II

June 18, 1991

Thank you for this opportunity to offer some reflections on the challenges of the most recent encyclical of Pope John Paul II. As a former President of the United States Bishops' Conference and as the Chairman of its Domestic Policy Committee, I am honored by your invitation and pleased that a Committee of the U.S. Congress has chosen to examine this encyclical's themes and values.

ELEMENTS OF THE ENCYLCICAL

For Catholics, an encyclical is religious teaching of the highest order. For others it is a statement that merits discussion because of the important topics it addresses, the fundamental questions it poses and the vital challenges it raises.

Centesimus Annus (The Hundredth Year) has received a remarkable response. Its sweeping moral analysis of the economic and global challenges of our time has drawn considerable coverage and commentary. Taking the 100 year old encyclical Rerum Novarum as his starting point and the dramatic changes of 1989 as an historic turning point, Pope John Paul II affirms and advances traditional teaching on work and workers rights, on morality and markets, and on global justice and peace.

The document is long, complex and nuanced. I offer for the record a summary of its principal themes. The encyclical:

1. Strengthens the Church's social teaching as an essential part of the gospel message and as a basis for action by the Church;

2. Emphasizes the Church's option for the poor and vulnerable and her defense of human life, human dignity and human rights;
3. Reaffirms the dignity of work, defends the rights of workers and supports the role of unions;
4. Outlines the responsibilities and limitations of the state, emphasizing basic human rights, subsidiarity, the role of intermediate groups, and the common good;
5. Declares that the market economy appears to be the most efficient instrument for utilizing resources, but must be governed by principles of justice, directed to meeting basic human needs, and oriented to the common good;
6. Calls for major new efforts to meete the basic needs of the poor and to provide opportunity especially for people in the Third World and those emerging from Communist oppression; and
7. Calls upon the world to find concrete alternatives to war and to build a culture of peace.

This encyclical offers no simple answers, but profound challenges. Its message resists easy ideological or political categorization. Rather, it challenges all of us -- liberal and conservative, East and West, rich and poor -- to shape economic life and global change enhancing the life, dignity and rights of the human person. It offers groundbreaking reflections in three

key areas: the advantages and moral limits of market economics, the responsibilities and limitations of government, and the human and ethical consequences of global poverty and conflict.

MARKET ECONOMICS AND MORALITY

The theme of the encylcical that has drawn the most attention in the U.S. is the treatment of market economics and morality. The Pope explicitly acknowledges the positive aspects of the modern business economy and its basis in human freedom. He says: "It would appear that on the level of individual nations and of international relations the free market is the most efficient instrument for utilizing resources and effectively responding to needs... But there are many human needs which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied and not to allow those burdened by such needs to perish."

In the United States, we experience both aspects of this important insight -- the strength, productivity, and creativity of a powerful market economy and the reality that some essential needs are simply not met through the market. Our economy has produced a standard of living that is the envy of the world and yet we are still haunted by poverty, hunger and homelessness in our midst. We have the finest health care in the world and 37 million Americans lack access to it. We have high rates of home ownership, but the market cannot provide decent housing for many poor families. As Bishop of Youngstown, Ohio I have some personal experience with "the human inadequacies of capitalism." We experience the strengths of our system and we

know in our hearts that it still leaves too many behind. The Pope, while emphasizing "secure advantages" of market economics, points to its limits and warns against an "idolatry of the market."

With particular reference to Eastern Europe, he describes an alternative society "of free work, of enterprise and of participation -- not directed against the market but one that demands that the market be appropriately controlled by the forces of society and the state, to guarantee that basic needs of the whole society are satisfied."

In fashioning a society of free work, enterprise and participation, small business -- the concern of this Committee -- is clearly vital. Small business provides much of the employment, vitality and creativity in our own economy, and the encyclical offers some values that are relevant to its role. The Pope suggests the measure of an enterprise is not simply its economic value and fiscal strength, but also its human impact -- the work it provides, the needs it meets, the service it renders and how it contributes to realizing the dignity of the people involved and the common good of the broader society.

The Pope takes up two key points: ownership and profit. The encyclical acknowledges "the legitimate role of profit" as an indication that a business is functioning well. "But profitability is not the only indicator of a firm's condition. It is possible for the financial accounts to be in order and yet for the people -- who make up the firm's most valuable asset -- to be humiliated and their dignity offended. Profit is a

regulator of the life of business, but it is not the only one; other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business."

According to the encyclical, "Ownership of the means of production, whether in industry or agriculture, is just and legitimate if it serves useful work. It becomes illegitimate, however, when it is not utilized or when it serves to impede the work of others, in an effort to gain a profit which is not the result of the overall expansion of work and the wealth of society, but rather is the result of curbing them or of illicit exploitation, speculation or the breaking of solidarity among working people. Ownership of this kind has no justification, and represents an abuse in the sight of God and men."

In a rich and complicated paragraph, he asks, given the clear failure of Communism should Capitalism be the goal for nations? If Capitalism means an economic system that recognizes the positive role of business, the market, private property and free human creativity -- then the answer is yes. But if Capitalism means a system where economic freedom is not circumscribed by a strong juridical framework which places economic freedom at the service of full human freedom, which recognizes the ethical and religious aspects of this freedom -- then the answer is no. Our challenge is to ensure that that moral and juridical framework is in place.

The encyclical defends "the positive value of the market and of enterprise," private ownership and profit as they contribute to human freedom, promote useful work, enhance the dignity of others, and contribute to the good of the whole society. But this support is qualified; it comes with a moral criteria. Every aspect of economic life is measured by how it touches the human person. In our tradition, the economy exists to serve the human person, not the other way around.

THE RESPONSIBILITIES AND LIMITATIONS OF GOVERNMENT

A second major emphasis is the role of government, both its duties and its limitations. According to the encyclical "the state has the duty of watching over the common good." It calls for government to help protect the worker "from the nightmare of unemployment;" insure adequate and decent wage levels and working conditions, "provide for the defense and preservation of common goods such as the natural and human environment which cannot be safeguarded simply by market forces." The Pope's specific reference to the need for adequate unemployment insurance underscores the U.S. Bishops' recent call to reform our federal/state system which provides benefits now to less than 40% of people who are out of work.

The state has special responsibilities to the poor and weak. As the Pope says: "...the more that individuals are defenseless within a given society, the more they require the care and concern of others, and in particular the intervention of governmental authority." He also emphasizes support for family life saying, "It is urgent therefore to promote not only family

policies, but also those social policies which have the family as their principle object, policies which assist the family by providing adequate resources and efficient means of support, both for bringing up children and for looking after the elderly."

As you may know, the U.S. bishops have called for enactment of such pro-family policies. Specifically, for the past seven years we have supported the Family and Medical Leave Act which is once again before this Congress. This year I have already testified before two congressional committees to point out that the Family and Medical Leave Act is essential to protect human rights and human dignity.

The encyclical affirms the role of the state and limits it. "Another task for the State is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the State but to individuals and to the various groups and associations which make up society... The State has a duty to sustain business activities by creating conditions which will ensure job opportunities, by stimulating those activities where they are lacking or by supporting them in moments of crisis."

In reaffirming the principle of subsidiarity, the Pope warns against the "social assistance state" which leads to the "loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending... In fact, it would appear

that needs are best understood and satisfied by people who are closest to them and who act as neighbors to those in need..."

From our own experience, we know the state cannot and should not replace family, community and private structures. Catholic schools, Catholic charities, religious hospitals and community organizations are a demonstration of our active commitment to a healthy, pluralistic society. But we also know that these and other efforts cannot substitute for wise and just public policy and for effective governmental action to protect the rights of the poor and the victims of injustice. This balanced approach to the role of the state will disappoint those who would reject the legitimate and necessary role of government or neglect the importance of the private and voluntary sectors. We need creative partnerships that use the strengths and roots of community structures to meet basic needs and fulfill the responsibilities of a decent society.

In a message that may ring true in these halls, the encyclical affirms democratic systems founded on recognition of human rights. The Pope goes on to point out: "Even in countries with democratic forms of government, these rights are not always fully respected. Here we are referring not only to the scandal of abortion, but also to different aspects of a crisis within democracies themselves, which seem at times to have lost the ability to make decisions aimed at the common good. Certain demands which arise within society are sometimes not examined in accordance with criteria of justice and morality, but rather on the basis of the electoral or financial power of the groups

promoting them. As a result, there is a growing inability to situate particular interests within the framework of a coherent vision of the common good..."

You know better than I the difficulty of pursuing the common good in the midst of many competing interests, the challenge of protecting the poor who lack the access and resources of more powerful groups. The key test for government, is not how the powerful do, but how the powerless fare.

GLOBAL POVERTY

The moral and human dimensions of global poverty and underdevelopment are another major theme of the encyclical. The Pope suggests that the imbalances between the nations of the world "have shifted the center of the social question from the national to the international level" and that "stronger nations must offer weaker ones opportunities" to develop.

He says "a great effort is needed to rebuild morally and economically the countries which have abandoned Communism." However "this need", he insists, "must not lead to a slackening of efforts to help the countries of the Third World -- which often suffer even more serious conditions of poverty and want." He calls for a special effort to mobilize resources for purposes of economic growth and common development. Enormous resources can be made available by disarming the huge military machines" of the cold war. He calls for effective arms control, arms reduction and curbs on the arms trade.

But most of all, we need to "abandon a mentality in which the poor as individuals and as peoples are considered a burden, as irksome intruders trying to consume what others have produced. The poor ask for the right to share in enjoying material goods and to make good use of their capacity for work, thus creating a world that is just and prosperous for all. The advancement of the poor constitutes a great opportunity for the moral, cultural and even economic growth of all humanity."

The Pope also in blunt language calls for concrete alternatives to war, a culture of peace and a concerted world-wide effort to promote development and relieve the burden of debt.

KEY QUESTIONS

An encyclical speaks in borad outlines. But it can offer some values and directions that can help shape the debate and decisions for our nation and for others and thus result in the specifics of legislation. While there are many questions that could be discussed, let me suggest several that may be relevant:

-- How can we use the efficiency, strength, and creativity of this market economy to help insure and enhance the dignity and rights of all Americans -- especially the poor, the jobless, and those who do not now share in this strength and prosperity?

-- How do we best encourage, direct and complement the workings of our market economy in ways that effectively respond to harsh economic realities that still haunt our

nation -- 20% of our children growing up poor, 37 million Americans without adequate health care, continuing hunger and homelessness in our midst?

-- How do we develop the will and ways to more effectively reach out in both charity and justice to address the global reality of millions upon millions living -- and too often dying -- without dignity, opportunity or hope because of global poverty, hunger, and economic injustice?

-- How does our nation move from strong talk about family values to creative and effective action to support families in responsibly caring for children and overcoming the economic, social and moral forces which too often undermine families? How can our tax code, workplace policies, private institutions and public programs support and not undermine families, especially poor families?

In a time of limited resources and many competing priorities, how can we work together -- business and labor, private and public sectors, religious and community groups -- to put the needs of the poor and vulnerable first, seeking to provide needed opportunity, respect human dignity, and meet basic needs?

CONCLUSION

This encyclical has drawn much interest because of who John Paul II is, for whom he speaks and the dramatic changes he addresses. My hope is that this encyclical will contribute to a broad and sustained dialogue across economic, ideological, and political lines on the moral dimensions and human consequences of

economic life and global change. I hope we can find significant common ground and common purpose in recognizing both the strengths of market economies and the work yet to be done to realize our national dream of "liberty and justice for all," especially for those who have not yet found a decent place in our economic life.

My fear is that the encyclical might be selectively read and used and that its profound challenges will get lost in an effort to renew old arguments. Its balance and complexity could be undermined by headlines and slogans. This would be unfortunate since there is both affirmation and challenge for all of us in this powerful statement:

-- For entrepreneurs and business people, they will find their important contributions, recognized and welcomed. They will also find new challenges to shape and measure their efforts by moral categories -- human dignity, and common good among others.

-- For working people and their unions, their vocation and roles are reaffirmed and strongly supported and they are called to work for greater justice and participation with new urgency and creativity.

-- For conservatives, there is the affirmation of the market and the responsibility to address needs not met by the market; for liberals, there is the passionate priority for the poor and the warnings about bureaucratic excesses of some responses.

-- For public officials, your responsibilities to safeguard human rights, protect the weak and pursue the common good are laid out with new urgency, but the dangers of bureaucratization and the call to respect and enhance family life and community institutions are clear as well.

-- For the Church, her social teaching has been strongly reaffirmed and advanced, but the challenge remains to move from words to action.

As Pope John Paul says, we "run the risk of seeing the collapse" of Communism as "a one-sided victory" for our economic system and as a result fail "to make the necessary corrections" in our economic life. Now is not the time for gloating, but for serious dialogue and action on how best to use our economic strength and moral principles to shape our national life to better protect the life, dignity, freedom, and rights of all God's children.

I hope today's hearing and these reflections contribute to this important task.

Michael Novak's

Testimony Before the Committee on Small Business

Room 2359A

Rayburn House Office Building

June 18, 1991

10:00 a.m.

Mr. Novak's oral testimony will cover the points outlined in the following recent statements:

STATEMENT OF MICHAEL NOVAK TO THE PRESS ON **CENTESIMUS ANNUS**

2 May 1991

This is a great encyclical, perhaps the greatest of the century. Many in Poland and Eastern Europe have been asking the Pope: after the collapse of socialism, what goal do you propose? Unequivocally, the Pope has replied: democracy in the political order and capitalism in the economic order--each checking the other, both guided by ethical and religious principles. He shows how Leo XIII's predictions in 1891 about the futility of socialism were fulfilled by 1989. He criticizes the welfare state. He sets a new agenda for the future, regarding the poor in the poor nations and in the advanced nations.

This encyclical does not divide left from right. It cuts through all slogans. It belongs to no one party. It appeals to the best in all.

THE WASHINGTON POST TUESDAY, MAY 7, 1991

ASSOCIATED PRESS

Michael Novak

Wisdom From the Pope

The pope's splendid new encyclical, "Centesimus Annus" (dated May 1, 1991), adds a new characteristic to his defense of liberty. It has been clear for many years that Pope John Paul II supports democratic institutions more than any previous pope and sees them as the best way to secure human rights. It has also been clear to some that he supports a type of "reformed capitalism." But this new encyclical makes clear beyond a shadow of a doubt that the pope endorses the "business economy," the "market economy" or simply the "free economy" as the goal he now proposes for formerly Communist and Third World societies. This support, even though limited, is very important for his native Poland and many other suffering peoples.

The institutional limitations on capitalism on which the pope insists are two: first, a juridical framework that protects other fundamental liberties besides economic liberty; and, second, a grounding of all liberties in a moral and religious core. In short, the economic system must be limited by a democratic polity and by a strong set of moral and cultural institutions (families, unions, associations, universities, media, churches, etc.). Only in this way will it, better than other systems, meet basic needs and constantly raise the level of the common good of peoples.

Jacques Maritain and Reinhold Niebuhr refer to such a mixed system as "capitalistic democracy." America's Founders used the term "commercial republic." Some of us prefer (on the model of "political economy") "democratic capitalism." The name does not matter; it is the political and moral checks and balances that count.

"Centesimus Annus" is 113 pages long in its Vatican edition. Its main purpose is to mark the centenary of the first of all modern papal social encyclicals, Leo XIII's "Rerum Novarum" (May 15, 1891). Whereas Leo XIII warned against the coming scourge of socialism, John Paul II now vividly describes the collapse of "real existing socialism." His chapter three, "The Year 1989," is a particularly brilliant commentary; it was, after all, the year this pope himself did so much to make possible.

There is much that is new and fresh in this encyclical. The pope is a professional philosopher with a very concrete turn of mind. Thus page after page is filled with sustained, complex, nuanced argument, noting the specific differences between Latin America and Africa, Eastern Europe and Western Europe, etc. Regularly, he cuts through slogans. He tries to see the whole human reality true—in its glory and in its self-betrayals.

Yet for readers alert to the main debates of the last 20 years, two contributions of this encyclical stand out. First, the collapse of socialism suggests to him that much in "liberation theology" has been bypassed by events, and in section 42 he proposes as the goal for formerly Communist nations and the Third World a new ideal for "integral liberation": democracy and, in the appropriately limited sense, capitalism. This analysis, subtle and nuanced, is little short of brilliant. It has more than fulfilled the dreams (and prayers) of many of us. The market, the pope sees, is an important but limited tool of integral human liberation. Through it surges the creativity that God has endowed in every woman and man.

Second, Chapter 5, "State and Culture," offers the papacy's strongest language ever about limitations on state power. It includes a trenchant but fair criticism of the human losses involved in the "welfare state" and even more in the "social assistance state." No neo-liberal or neo-conservative ever made the case more profoundly and with so resounding a ring of truth. The pope emphasizes the human side—or better, the anti-human side—of bureaucratic "social assistance." He all but uses the phrase "the little platoons" of society.

The pope's greatest originality, however, may lie in going beyond questions of politics and economics to questions of morality and culture. In a sense, the political argument of the 20th century has been resolved in favor of democracy; and the economic argument has been resolved in favor of capitalism. Thinking of the chief battleground of the next century, the pope turns to the disappointing use that existing free societies are now making of their freedom. He turns to the inadequacies of modern culture and morals.

Pope John Paul II is a humanist through-and-through. The legacy he wants to leave to Catholic social thought, he says, is that it is made for humans and humans for it. He places Catholic social thought at the service of the human vocation that the Creator gives to every woman and every man. It is a vocation that we each often fail. The pope describes humans as richly endowed by nature, gifted by grace, and yet, nonetheless, tending often to turn against God and his gifts. His anthropology may be summarized as "humans simultaneously graced and sinners."

Each society (John Paul II observes) has its own ecology—its own culture, ethos, distinctive shape and story. Sometimes a culture disfigures the human character of its citizens, pollutes their minds, warps their wills, twists their instincts. Human beings can be made into monsters by their culture. The pope calls for a new science of "human ecology." This means a public and public inquiry into human nature and destiny. Wrong answers in this domain can mean social suicide. Wrong answers always entail the disfigurement of human beings.

You can tell the quality and depth of a nation's culture, the pope trenchantly states, by observing what it produces and consumes. Especially remark imposes a new moral accountability on capitalist firms, investors and media. In this century, the pope thinks free peoples have neglected their responsibilities to the quality of the moral atmosphere, the cultural environment in which they try to raise their children and to be faithful to their dignity as free citizens.

This is a great encyclical. It will release enormous energies in Eastern Europe, the Third World and advanced societies. It should read in tandem with 2091 as Leo XIII's accurate predictions about socialism in 1891 still read today. No other world leader could have produced such a profound new *d'horizon*. Get a copy and see for yourself. You will be glad you did.

The writer holds the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute.

May 27, 1991

The media love to portray John Paul II as a socialist. Read his new encyclical

A papal "yes" to capitalism

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett Chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely read around the world.

which ought to be proposed to the Third World."

His answer is breathtakingly important. Most of the world's nearly 1 billion Catholics live in the Third World, and a wrong recommendation by popes, bishops and lay activists might doom many millions to endless poverty. Including John Paul II's fellow Poles.

The pope answers: "If by 'capitalism' is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as human creativity in the economic sector, then the answer is certainly in the affirmative."

Rather than "capitalism," the pope suggests that "it would perhaps be more appropriate to speak of a 'business economy,' 'market economy' or simply 'free economy.'"

The pope insists that economic freedom is at core ethical and religious freedom, and must be "circumscribed within a strong juridical framework that places it at the service of human freedom in its totality." At the heart of freedom, he repeats often, is "obedience to the truth," fidelity to God's law. This law is found in the way in which humans practice intelligent choice and moral responsibility.

Freedom for John Paul II is very different from license. There is a "human ecology" of freedom that is too much neglected these days, he says. He means the moral atmosphere necessary for the bringing up of responsible, cooperative, imaginative human beings, worthy of the gifts of their own nature.

The pope is quite critical of excesses of state power, notably so in the case of the welfare state.

He distinguishes between the desire of consumers for goods of ever better quality, and those appeals to "instinct" that diminish human beings, corrupting their capacities for intelligence, responsibility and caring. This he calls "consumerism." Advertisers and the media have serious accountability in the realm of "moral ecology." They often demean humans, approaching them as less than God made them to be.

For John Paul II, the 20th century shows that atheism cannot cut it. Atheistic societies do not see that the dignity of persons comes from God. With God removed, resistance to naked power is weakened. They are blind to what is on humans—the beauty and infinite value of the person.

The social role of the Church, he writes, is to inspire "a great movement for the defense of the human person." He hopes that those "who profess no religion" will also help build an ethical foundation worthy of human dignity. For in 1989 (a year that is pivotal in his analysis), this world of ours began a new adventure. A great many nations must now "start over," constructing a new order in the Third World or on the ruins of communism, in the framework of a world made more interdependent than ever before by human invention, markets and creative genius.

God, the pope says, is the source of human creativity. From this source flows the goodness of all forms of creativity, including economic creativity. Jefferson also said: "The God who gave us life gave us liberty." In the name of liberty, the pope lays down many challenges to our present moral and political life. Read this encyclical and cheer.

ANOTHER VIEW

Pope's encyclical advances liberty, prosperity

By WILLIAM E. SIMON
and MICHAEL NOVAK

Pope John Paul's new encyclical, *Centesimus Annus* (*The Centenary*), is one of the truly great documents of Catholic social teaching and will do more to help the poor around the world than any previous encyclical. Following the fall of socialism, he has recognized with greater clarity than any other religious leader the superior capacity of free economies to meet the aspirations of ordinary people everywhere.

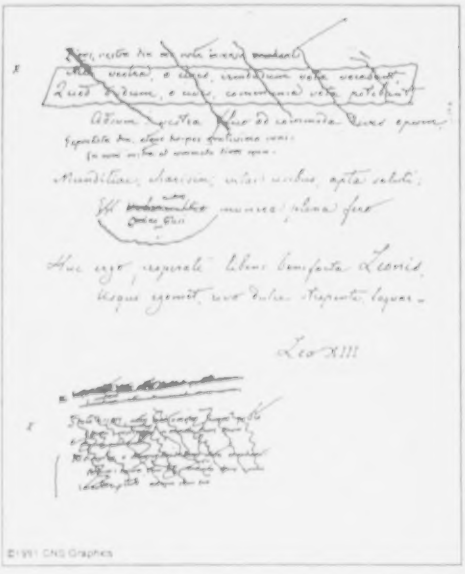
This new encyclical, dated for International Workers Day (May 1), marks the 100th anniversary of Pope Leo XIII's *Rerum Novarum* (*New Things*), the formative statement of the church's teaching on social and economic affairs. In his new encyclical, John Paul II carries forward the teaching of *Rerum Novarum*, especially in its analysis of socialism, and adapts it to the lessons learned in the past 100 years. Offering a vision worldwide in scope, the pope gives better expression to the ideas behind the American system, both in its strengths and weaknesses, than any document we have seen from any religious body.

The pope's encyclical is historically important for a number of reasons — for his strong endorsement of democracy and the market economy, for his diagnosis of the collapse of socialism, for his surprising critique of the welfare state and for his emphasis on the limitations and dangers of state power. The pope speaks powerfully and clearly on many issues in a way that commands our attention.

A central theme of the encyclical is the affirmation of the moral and economic superiority of a market economy or a "business economy," as he sometimes calls it, to any of its modern alternatives. From an economic standpoint, the pope says "the free market is the most efficient instrument for utilizing resources and effectively responding to needs." From a moral standpoint, he argues, a system based on private property insures liberty for the individual person and provides a basis not only for energy and creativity in society, but also for meeting universal needs. To the extent that church teaching in the past has looked for a "third way" between capitalism and socialism, that theme is now absent in this encyclical.

In a notable chapter titled "The Year 1989," the pope reflects on the collapse of socialism and on the lessons to be learned from this momentous event. In *Rerum Novarum*, Leo XIII set a dozen reasons why socialism is a "futile" idea, as well as "evil" and "unjust." Now, 100 years later, John Paul II writes the epitaph for it.

Following other popes of this century, he condemns socialism for its materialism and for setting class against class, thus destroying the basis for genuine cooperation in society, and closing man's eyes to his true identity. The pope also notes the inefficiency of the socialist community in fulfilling basic needs and its suppression of human rights.



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May 15, 1991, marked the 100th anniversary of Pope Leo XIII's *Rerum Novarum*, the formative statement of the church's teaching on social and economic affairs. This copy of an early version of the conclusion of the 1891 Latin manuscript shows Pope Leo's hand-written alterations.

By contrast, the pope rejects (as we would) a market system that is purely materialistic and that is not limited by laws and spiritual values that place the economic system at the service of "human freedom in its totality," the core of which is ethical and religious.

Our market economy, then, while it meets our material aspirations and protects fundamental human rights, cannot be governed by purely material values but must be directed by higher moral principles. But the pope also teaches that "In the struggle against such a system, what is being proposed as an alternative is not the socialist system, which in fact turns out to be state capitalism, but rather a society of free work, of enterprise and of participation."

What is most surprising to some about this encyclical is the pope's strong criticism of the modern welfare state or, as he calls it, the "social assistance state." Many Americans have criticized our welfare state for its inefficiency and expense, for weakening the family and for turning the poor into passive clients with little incentive to help themselves.

The pope acknowledges these defects in the welfare state. "By intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending." He calls on all of us to help the poor in more "neighborly" and personal ways both to strengthen families and to empower local institutions.

The pope's candid reflections in *Centesimus Annus* will encourage the nations of Eastern Europe now undergoing great social and economic changes and will energize those in the chronically poor nations of the underdeveloped world. After the fall of socialism, the pope points to a "business economy" as the model we should look to for reform and growth in those parts of the world.

His vision is timely and practical. To carry it out, however, he calls on the developed nations to play their parts in helping free economies to take root in those areas so that these nations can attract capital and provide jobs and income for their people. Along with the term *capitalism*, the pope speaks of a "business economy" or simply a "free economy," but no matter which term is used, his recommendation is an important step forward for the people of Eastern Europe and the Third World.

The pope at one point in the encyclical challenges us to assist the poor of the world by a transfer of wealth from richer nations to poorer nations, in order to alleviate the grinding poverty in the underdeveloped world. In our view, foreign aid funds, whether given or borrowed, are often squandered. Thus, the most effective way to fight poverty in the Third World, the pope suggests, is to permit free economies to take root and grow in order to create jobs, augment exports, attract foreign investment and build infrastructure.

This will not happen overnight, but as these nations are brought into the structure of a growing world economy, they will begin to enjoy a steady expansion of both liberty and material prosperity. New wealth can be created wherever human ingenuity and creativity are permitted expression in free economies.

The pope laid down some severe challenges to America, too — especially to be faithful to the ideals written into all of us by "nature and nature's God." He reminds us of the fundamental right to life and focuses on some obvious defects in our modern culture, namely, its appeals to materialism and instinct rather than to what Lincoln called "the better angels of our nature." He bids us to pay attention to "human ecology," the moral atmosphere necessary to the survival of free institutions and to the protection of the full range of human liberties.

The pope also praised workers and labor unions, in keeping with the tradition of church teaching on this subject, and praised them especially for their contributions leading up to the revolutions of 1989 and for their efforts over many decades in making the democratic capitalist order more humane. These words are an important reminder of the vital role workers play in our market economy.

What is the appropriate role of the church in the practical affairs of economics and society? The pope has an instructive answer: "The Church respects the legitimate autonomy of the democratic order and is not entitled to express preferences for this or that institutional or constitutional solution. Her contribution to the political order is precisely her vision of the dignity of the person."

We interpret this important statement to mean the church's role is not to lay out specific programs for economic reform, but to stress the moral principles that will guide laypeople in working out the best practical solutions in the open give-and-take of the democratic process.

The pope's encyclical advances about 20 distinctions or formulations that are similar to passages in our Lay Letter on Catholic Social Teaching and the U.S. Economy, *Toward the Future* (1984). These were not widely accepted at the time, and it is comforting to see them now become a part of Catholic social teaching. Among these are the pope's passages on the family, enterprise, subsidiarity, creativity and the legitimacy (and limits of) profit.

There are also parallels in human capital, a new approach to welfare, markets and their limits, "capitalism" used to describe a system ordered by a juridical framework and an ethical religious core, the limited constitutional state and the endangered cultural-moral dimension of advanced societies.

We urge our fellow citizens, especially in the business and academic communities, to study the pope's encyclical carefully. It articulates in clear and moving words the faith that many of us hold, not only the Catholic faith, but on a penultimate level, our faith in the institutions of liberty that have guided the United States of America. In its celebration of what can be achieved under free economies, and in the challenges it sets for the future, this encyclical is an important event for the Catholic church and for all those who wish to advance liberty and prosperity in the world and to elevate our public life ■

William E. Simon, former secretary of the Treasury, is chairman of William E. Simon and Sons of Morristown, N.J. Michael Novak holds the George Frederick Jewett Chair in Religion and Public Policy at The American Enterprise Institute in Washington, D.C. They were cochairmen of the Lay Commission on Catholic Social Teaching and the U.S. Economy, which issued a report in 1984 titled "Toward the Future."

Michael Novak

THE ENCYCLICAL *Centesimus Annus* does everything that many of us had hoped for from some Church authority, *viz.*, capture the spirit and essence of the American experiment in political economy. The Pope showed an extraordinary grasp of American ideas, achievements, and points of view. His vision of a free economy, within a culture moral and religious to its core, guided and energized by a democratic polity, is American in spirit and definition. Thus, Pope John Paul II has brought economic liberty (plus democracy) into Catholic social teaching, just as Vatican II brought religious liberty. In both cases, these are predominantly American contributions to the Church universal. This alone was a monumental cause for celebration, but there was another, decidedly minor, circumstance.

Just as *Centesimus Annus* came out, John Cort, the Catholic democratic socialist, was describing my views on capitalism as "heresy" in the May *Catholic Worker*. *Commonweal* was bashing the Lay Letter, the committee for which William Simon and I chaired in 1984. And NATIONAL REVIEW was denounced by Father Richard McBrien as a flagrant "dissenter" from Pope John XXIII's *Mater et Magistra* (1961). After reading all this and then reading *Centesimus Annus*, no wonder many of us heard in our hearts for several days the surging sound of a *Te Deum*.

The big points in this encyclical will surely be covered by other writers in this symposium. So let me concentrate on a few small points, since it is in its details that this papal letter shows its true brilliance. Just one example. On pages 92–95, the Pope alludes to the desperate need poor families have of jobs. But instead of declaring a Humphrey–Hawkins "right to work" that the state will enforce, he writes: "Primary responsibility [for human rights in the economic sector] belongs not to the state but to individuals and to the various groups and associations which make up society." Then comes the sentence I really love. "The state

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Mr. Novak holds the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute.

could not directly ensure the right to work for all its citizens unless it controlled every aspect of economic life and restricted the free initiative of individuals." Thus, having experienced the prison fashioned by the Marxist version of "economic rights," the Pope pops that notion of rights on its glass chin, and the fragments fall to the floor.

Another detail shines out in the section on drugs, which the Pope points to as a sign of "consumerism" at its worst. "These criticisms are directed not so much against an economic system as against an ethical and cultural system." What a neat—and accurate—way of putting it.

Throughout, this philosophically trained Pope distinguishes the three separate but related systems of advanced free societies: the political system, the economic system, and the moral-cultural system. To each he

If in Vatican II Rome accepted American ideas of religious liberty, now Rome has assimilated American ideas of economic liberty.

gives its due, and (in the pursuit of that necessary unity, in Christ and Salvation, to each other) it does not seem odd for a person trained in classical Christian to grasp the concepts of three at once.

Another neat distinction are made for the first time in a papal document between human capital and capital based on, and between nations of the "South" that use space and those that use human capital to create their wealth despite their lack of natural resources, and on the chief causes of the wealth of nations—not a Marxist "labor theory of value," but enterprise, innovation, organizing skill, and creativity. "Today the decisive factor increasingly is *man himself*, that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organization, as well as his ability to perceive the needs of others and to satisfy them." His further elaboration of new modern virtues such as enterprise, initiative, creativity, and civic responsibility is also superb.

Most important of all, perhaps, is the extended attention given throughout *Centesimus Annus* to the moral and cultural sector of life—how it impinges on political economy, often inspiring, correcting, and guiding it, while imparting to it dynamism and character. A Pope who has experienced both Communist and free societies understands instantly the economic differences that moral/cultural factors give rise to. For free societies in the twenty-first century, questions of culture and morals are likely to be near the top of the agenda. Amid rising tides of intellectual relativism and moral sickness, free societies face real problems in developing their human capital and in maintaining against human weakness the intense pressure of judgment by the Almighty, whence springs so much social dynamism (cf. Abraham Lincoln).

Finally, the Pope describes the views of those (like Richard Rorty, Arthur Schlesinger, and many others in this country) who argue that only agnosticism, relativism, and unbelief keep democracy safe. "Those who are convinced that they know the truth and firmly adhere to it are considered unreliable from a democratic point of view." Then, recalling recent experiences under Marxism, the Pope turns the tables on them:

> It must be observed in this regard that if there is no ultimate truth to guide and direct political activity, then ideas and convictions can easily be manipulated for reasons of power. As history demonstrates, a democracy without values easily turns into open or thinly disguised totalitarianism.

Let me state it as clearly as I can: *Centesimus Annus* is a great encyclical, the greatest in a hundred years. It is the single best statement in our lifetime by the Catholic Church, or any other religious body, of the moral vision of a political economy such as that of the United States. That is why even Pope John Paul's diagnosis of serious faults in such systems is not offensive; his criticism hosts us on our own ideals. It is, so to speak, criticism "from within." It is as if the Pope had written: "We hold these truths in faith: that all men are created equal and endowed by their Creator with certain unalienable rights, among which are the right to life, etc." Quite recognizable, that.

If in Vatican II, Rome accepted American ideas of religious liberty, in *Centesimus Annus* Rome has assimilated American ideas of economic liberty. Moreover, the Pope has brought Rome to understand liberty as Americans do:

> Confirm thy soul in self control
> Thy liberty in law

Look again at the Statue of Liberty, holding aloft the lamp of reason, in her other hand the Book of the Law, and bearing a visage as stern and purposive as that of any third-grade teacher in the history of our land.

Testimony to the

House Committee

on

Small Business

18 June 1991

John D. Steinbruner

Brookings Institution

The Encyclical letter Centesimus Annus is a document of very broad scope. It covers the events of a momentous century, reviewing the great collisions of social philosophy that occurred and noting the many issues that have not been settled by the apparent emergence of market principles as the global standard for economic organization. Its perspective is, of course, moral and theological. It brings to bear the great weight of papal tradition and the remarkable personality of Pope John Paul II.

In commenting on Centesimus Annus, I will not attempt to address all of its many dimensions. Nor will I attempt to gauge its moral significance directly. I do want to identify several guidelines advanced concerning the international economic order that I believe should be taken very seriously for practical reasons. Since moral theology and practical policy are usually very difficult to reconcile, occasions where there is a natural harmony between them are particularly important.

Common Purpose

In firm but appropriately dignified passages, Centesimus Annus rejects the moral claim of authoritarian socialism and rejoices in the fact that the many efforts to impose this form of organization on unwilling societies are now rapidly yielding to popular resistance. That part of the message will be readily and cheerfully received in the United States and in other industrial societies. The unimpeachable conviction of the Pope who issues it will be universally acknowledged.

The assertion of common purpose that complements this message, however, is likely to be less comfortable to Western audiences. While rejecting the demeaning ideology and authoritarian methods of socialism as it has been practiced for the past century, Centesimus Annus embraces the commitment to social justice and economic equity that were the core of socialism's originally avowed intentions. It advances these considerations as unrealized requirements of an acceptable market economy and as obligations that must accompany individual human rights.

The right to property is affirmed in Centesimus Annus, for example, as a universal principle but it is qualified by a moral restraint -- the "law of the common purpose of goods", reflecting the obligation of all individuals to a larger social order. "Democracy without values," the encyclical warns, "easily turns into thinly disguised totalitarianism." "Just as there is a collective responsibility for avoiding war," it declares, "so too, there is a collective responsibility for promoting economic development." In many passages such as these, Pope John Paul II makes it apparent that he is not entirely reassured by the triumph of the industrial democracies in the century long ideological competition, and neither should the rest of us be.

In advancing moral guidelines and in explicitly refraining from the presentation of any particular model of social organization, the language of Centesimus Annus remains very general. It is cast in the idiom of moral principle whose connection to practical events is necessarily a matter of judgment. We have grown accustomed to debate over such judgments, and we have carefully designed our political system to assure

as much as possible that their practical resolution is a matter of individual conscience and not political coercion. That is a very good thing as far as it goes, but we must also be aware that for some of the issues at stake, the outcome achieved will be as vital as the process followed. In the course of the next century and well before it has elapsed, the matters of common purpose so carefully and judiciously addressed in Centesimus Annus are likely to become practical imperatives of overriding significance. A new economic order will have to be defined. Fortunately it is not likely to be the coercive socialism that Pope Leo XIII feared when he issued Rerum Novarum in 1891 and thereby created the occasion for Centesimus Annus. But it necessarily will give much greater political weight and practical effect to common social purposes than we are currently able to do.

Economic Inclusiveness

These imperatives arise in part from the consequences of technical change. With the development of microelectronics and related materials technology over the past two decades, the cost of processing and transmitting information has undergone the most radical transformation of any central commodity in economic history. Over the course of the last two decades, the cost of transmitting data has declined by two to three orders of magnitude and that trend is expected to continue at a rate of about 70% per year. This creates new physical conditions for the performance of many tasks in the economy, and it is a reasonable

presumption that they will change in a manner that is commensurate with the magnitude of the technical advance that has occurred. As organizational practices evolve in reaction to the new circumstances for handling information, the production of goods and services will be accomplished in different ways and in different locations. Relevant activity is likely to be more dispersed in space and more integrated in content. Moreover, as Centesimus Annus suggests, knowledge is likely to mediate meaningful economic participation. Though there has been a great deal of imaginative speculation about the nature of this new age, I doubt that anyone yet comprehends how far-reaching its implications will ultimately prove to be.

It is already possible to see, however, that national boundaries are being permeated and that the most advanced forms of economic activity are now organized on an international scale. In terms of their personnel, technology base, market aspirations, and financial sources, most major corporations are now international entities, and even small businesses are now being drawn into the network of international relationships to the extent that they flourish. No national economy under these conditions is large enough or sufficiently self-contained to prosper in isolation. None can sustain hegemony over the others. No nation can appropriate for itself the exclusive benefits of technical innovation and none can exempt itself from the profound, very likely disruptive structural adjustments entailed. No doubt some vigorous attempts will be made to do all of these things, but in the end the moral imperative of

equitable cooperation to manage the consequences of radical change is likely to be imposed as a practical necessity.

Equitable cooperation implies open markets with a heavy presumption running against any discrimination on political grounds -- the same presumption that currently protects individuals under the United States legal tradition from the imposition of criminal sanction. The habit of justifying trade discrimination on the basis of national identity -- still well-entrenched after many decades of negotiations on the subject -- will eventually have to yield to an international community operating with a presumption of inclusion in exchange for honoring its rules. Its rules in turn will have to be able to command consensus across differing national perspectives.

To offer a specific illustration, let me note the current arrangements for regulating trade in the technologies most relevant to the on-going information revolution -- that is, computers and telecommunications. For more than forty years, the members of NATO (less Iceland) together with Australia and Japan have prohibited exports of the more advanced commercial products in these areas in order to prevent or to retard their applications to military purposes by the Soviet Union and its allies in Central Europe. Though they did not actually attempt such a thing and disavowed any intention to do so, the members of the now disbanded Warsaw Pact were suspected of an inclination to invade Western Europe and that suspicion was readily accepted as justification, indeed as a compelling reason to impose an embargo on significant technology. With the formal dissolution of the Warsaw Pact and the substantial

changes in Soviet policy that preceded it, this traditional suspicion is increasingly difficult to defend. With the rapid development of international markets in these technologies it is also increasingly futile in practical terms.

Under a rule of equitable cooperation, these technologies would be extended to the Soviet Union and to any other country as long as they were convincingly applied to legitimate commercial purposes. Refusal to do so not only violates moral principles of the sort that Centesimus Annus sets forth -- "the law of the common purpose of goods" but also violates practical prudence. Embargoing advanced computer and telecommunications equipment to the Soviet Union will not in fact deny access to these technologies or prevent their military application, but will prevent the constructive influence that otherwise might be exercised both to encourage economic reform and to regulate military behavior.

In recent revisions of trade export policy, the United States and its collaborating partners have moved in the direction of this new standard but have not adopted it. The export licensing arrangements have been liberalized but are still designed to discriminate against the Soviet Union for security reasons. The international community is not yet fully cooperating either to prevent war or to promote economic development -- two of the more notable guidelines from Centesimus Annus.

The principle of equitable cooperation is not limited, of course to reconciliation with former enemies. As many passages in Centesimus Annus point out, a new order must be extended as well to those who have been by-passed and neglected by the process of economic development. For

practical as well as moral reasons the presumption of inclusion cannot be merely a passive, permissive rule, but must have a strong assertive element as well. Since a major consequence of the information revolution is to accelerate the rate of economic change, it appears virtually inevitable that current disparities in standards of living are likely to widen as the more advanced segments of those countries surge more rapidly in their process of development. Uneven development threatens the coherence of society both locally and internationally. Assertive policies to mitigate this effect and to disperse economic progress more broadly are very likely a necessary element of preserving social order.

Global Balances

Another practical imperative is emerging from the projected scale of human activity. We are not far from the point where we will have to take quite seriously the overall effects of the international economy on the natural environment, and at that point we will need methods of international coordination far more effective than any we have yet developed. Within the span of another century, concerns for global environmental balances are likely to have changed the international order quite fundamentally.

This impending development can be readily appreciated by considering the implications of basic population dynamics. Assuming that apocalyptic war or some natural equivalent does not occur, the total human population by the next anniversary of Rerum Novarum is likely to be in the range of

10-14 billion -- two to three times larger than it currently is. As a direct consequence, even if economic growth is no more than routine, the total world economy is likely to be at least five times its current size. That in turn means that patterns of resource use will have to be dramatically altered with long term sustainability a far more prominent objective.

This is particularly apparent for patterns of energy usage. Though it is not likely that nonrenewable reserves of fossils fuels will literally be exhausted in the course of the next century, their relative value is likely to be set beyond the point where they can be feasibly used as primary energy sources in anything like the current proportion. The driving reasons are likely to be not only the inexorable economics of scarcity, but also concerns for the balance of carbon emissions into the atmosphere.

I will concede that it is not possible at the moment to determine what the ultimate scientific judgment about the global warming phenomenon is likely to be. There are currently too many basic uncertainties affecting the problem to assess it with reasonable confidence. Nonetheless, it is reasonable to anticipate that within a few decades restrictions on carbon gas emissions will be considered necessary to preserve atmospheric balances. Given the amount of time required, the financial magnitudes demanded and the inherent risk involved, private investment alone will not be sufficient to develop alternative energy technologies and to assure their introduction in a manner that preserves economic equity. It is unlikely that any single national government will

be able to do so either. In this and in several other areas, we are already in the presence of problems that clearly will require sophisticated organization on an international scale and therefore a major change in prevailing attitudes about competition and cooperation.

With all this in mind, I read Centesimus Annus as a call to common purpose addressed to the world as a whole across all its many human divisions. I believe there are truly compelling practical reasons to heed that call. We are mandated not only by conscience, but also by material interest to create a new economic order that offers plausible rules of equity and effective management of the major technical and economic transformation we cannot avoid.

ISBN 0-16-035629-6

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